

# AusGuideline

Activity design

## 3.4 Undertaking a prefeasibility study

### **Associated guidance on 'Activity design'**

Part 3A *Identification & assessment of initiatives*

Part 3B *Preparing activity designs*

Part 3C *Appraisal and Approval*

AusGuideline 3.1 *Principles of activity design*

AusGuideline 3.2 *Selecting forms of aid*

AusGuideline 3.3 *The logical framework approach*

AusGuideline 3.5 *Undertaking a feasibility and design study*

AusGuideline 3.6 *Preparing draft scope of services and basis of payment*

AusGuideline 3.7 *Preparing activity schedules*

AusGuideline 3.8 *Designing and using Flexible Funding Accounts*

October 2005



**Australian Government**

**AusAID**

© Commonwealth of Australia 2005

# Contents

<b>1</b>	<b>Introduction</b>	<b>1</b>
<b>2</b>	<b>Guiding principles</b>	<b>1</b>
2.1	Purpose	1
2.2	Main tasks	2
2.3	Key steps	3
2.3.1	Initial consultations	3
2.3.2	Field Consultations	3
2.3.3	Analysis	3
2.3.4	Further Action	4
2.4	Clear thinking: the logical framework approach	4
<b>3</b>	<b>Prefeasibility study document: detailed content</b>	<b>5</b>
3.1	Executive summary	5
3.1.1	Activity origin and prefeasibility preparation	5
3.1.2	Summary of analysis	5
3.1.3	Objectives and likely scope	5
3.1.4	Risks	5
3.1.5	Sustainability	5
3.1.6	Further action	5
3.2	Activity preparation steps	6
3.2.1	How the activity originated	6
3.2.2	Current preparation tasks	6
3.3	Analysis	7
3.3.1	Development constraints and issues	7
3.3.2	Possible options	9
3.4	Activity development	10
3.4.1	Broad objectives	10
3.4.2	Likely financial scope of activity	10
3.5	Preliminary risk assessment	10
3.5.1	Assumptions	10
3.5.2	Risks	10
3.6	Preliminary Sustainability Analysis	11
3.7	Forthcoming feasibility design work	11
3.7.1	Further action	11
3.7.2	Feasibility design requirements	12
3.8	Suggested appendices for the PSD	12
3.9	Associated documentation	12

# 1 Introduction

This guideline has been prepared to assist in preliminary activity preparation. It has two parts

- guiding principles, and
- prefeasibility study documentation – detailed content.

The requirements for information in a prefeasibility study document (PSD) can vary considerably. For this reason, this guideline provides a generic model for the PSD. It should not be seen as a mandatory approach. Prefeasibility study teams are responsible for adapting this format to the needs of the development activities they are examining, and in accordance with their terms of reference. This should be done in consultation with the Activity Manager.

Prefeasibility study teams are also responsible for ensuring that the PSD is presented in clear, unambiguous language. This is particularly important given the wide readership of the PSD, which includes activity managers, other AusAID personnel, partner government officials, and contractors.

There is a range of other guidelines and documents that the prefeasibility study team may need to consult. These are referred to at the end of each relevant section.

## 2 Guiding principles

### 2.1 Purpose

As its name indicates, a prefeasibility study is the precursor to a feasibility and design study (FDS). Its main purpose is to ensure there is a solid basis for undertaking a feasibility and design study.

There are two main ways of using a prefeasibility study. Its most common use is as the first step in activity preparation, after activity identification is complete – that is, after a decision has been made to take a selected option (or options) forward into preparation of a design for implementation.

However, a prefeasibility study can also be used as part of activity identification. This would typically occur when enough is already known about the development situation to enable an

identification mission to carry its analysis and reporting through to the standard prefeasibility study level. In this case the prefeasibility study

- undertakes the basic analysis and option development work of an activity identification mission, and
- for a number of selected options, takes information gathering, design analysis and activity description to the prefeasibility stage.

The tasks and terms of reference will vary somewhat between these two cases, with the prefeasibility study during identification usually needing to start from an earlier stage of analysis and to spend more time on basic definition and assessment of the initial activity options.

The preparation plan for the activity and terms of reference for the study should make it clear which type of prefeasibility study is intended. The terms of reference should also make it clear whether the prefeasibility study is to

- present a range of options and prepare prefeasibility documentation on each
- investigate a range of options, but recommend and document only one, or
- undertake prefeasibility analysis and prepare documentation on an already identified option.

## 2.2 Main tasks

The specific tasks of a prefeasibility study should be spelt out in clear terms of reference. In general terms, the main tasks of a prefeasibility study may include

- undertake a detailed analysis of the development situation and constraints the activity is to address, based on the collection of sound, objective data
- identify partner government policies, programs and activities designed to address the constraints (and also the activities of other donors)
- identify and define the linkages between the activity and poverty reduction, taking into account the findings of a poverty analysis
- define possible design options or concepts, including different forms of aid, that may merit analysis
- make a preliminary assessment of the viability of alternative approaches, and contrast and compare their likely feasibility and benefits
- make a preliminary identification of likely risks to feasibility and benefits (including risks to sustainability) and assess the importance of these risks,

- define achievable outcomes for the activity, and prepare (or further refine) an activity proposal (or proposals), including a logical framework matrix (or matrices), if appropriate
- prepare terms of reference for a further design step (possibly a feasibility design study), if further design is considered warranted.

## 2.3 Key steps

Below are generic steps the study team may need to take, depending on the nature of the study as defined in the terms of reference.

### 2.3.1 Initial consultations

- check the background to the proposal through discussion with AusAID in Canberra and the Post, partner government planners, other donors and target groups
- check on related programs and activities with appropriate agencies and other donors, and
- consult relevant Australian government agencies on their activities in the country and their capacity and interest in participating in any potential activity.

### 2.3.2 Field Consultations

- visit the location(s) of the proposed activity and undertake structured data collection to establish a sound understanding of the development situation being addressed
- identify the main problems and their causes
- check the activity rationale and likely benefits through discussion with potential beneficiaries and locally based technical staff, and
- undertake a preliminary assessment of the institutional capacity of local agencies.

### 2.3.3 Analysis

- formulate objectives for the activity
- assess the likely feasibility and benefits of the activity from technical, economic, financial, social, and institutional perspectives
- make a preliminary assessment of the environmental, social and gender impacts and the impact on poverty reduction
- prepare, where possible, estimates of benefits and establish order of magnitude of the financial and economic worth of the proposed activity
- make an initial assessment of major risks
- consider alternative aid modalities, and

- discuss with partner government agencies the activity objectives, estimates of benefits and financial and economic worth, and risks.

#### 2.3.4 Further Action

- develop terms of reference for a feasibility design study if this is deemed appropriate, and
- define further data collection and analysis requirements, and possible data sources, for the feasibility design study.

The prefeasibility study may recommend that the activity be rejected. In this case the team's work is curtailed and some of the steps above would not be undertaken. Agreements or contracts with prefeasibility study teams need to take this into account. The prefeasibility study team should alert the Post quickly if the activity proposal appears not to be viable.

## 2.4 Clear thinking: the logical framework approach

AusAID activity design work is based on cause and effect principles. The development problem is analysed to identify its root causes. The likely effects of possible interventions are analysed to ensure that they are valuable in terms of potential benefits.

One important method of activity design and documentation based on cause/effect analysis is the logical framework approach (LFA). The LFA analyses that causality of the development situation via problem and stakeholder analysis, converts these to objectives, and then develops a proposed activity design via the examination of options. As options are selected and developed, the LFA involves the development of a detailed activity design. The LFA is best started early in the activity cycle as an aid to clear thinking.

One well-known part of LFA is the logical framework matrix (or "logframe"). The logframe presents a useful summary of selected elements of the activity design through short text statements organised in tabular format. However, the production of a logframe is only a small part of the LFA, which is an overall methodology of activity design.

A logframe at prefeasibility may not always be necessary or desirable, especially if one clear strategy or set of options cannot be identified. However, if possible, one should be prepared. It is suggested that the logical framework at prefeasibility be confined to the narrative summary and assumptions columns.

For further information, refer to AusGuideline 3.3 *The logical framework approach*.

## 3 Prefeasibility study document: detailed content

In addition to a map, table of contents, glossary and/or list of acronyms, the PSD might contain the following sections.

### 3.1 Executive summary

The Executive Summary should provide a concise overview of the PSD. Below are suggested headings for the Executive Summary.

#### 3.1.1 Activity origin and prefeasibility preparation

Include a very brief summary of the history of the proposal stating how it resulted in a decision to undertake a prefeasibility study. Summarise the stages of the prefeasibility study.

#### 3.1.2 Summary of analysis

Summarise the analysis undertaken during the prefeasibility study. State the conclusions regarding development constraints and issues. Summarise the options that have emerged and comment on their likely feasibility and sustainability.

#### 3.1.3 Objectives and likely scope

Summarise broad objectives that any future activity might adopt. If appropriate state the financial scope of the activity.

#### 3.1.4 Risks

Summarise the major risks that have been identified. Identify risks that may preclude the activity going ahead.

#### 3.1.5 Sustainability

Summarise the key factors that are likely to impact either positively or negatively on the delivery of sustainable benefits.

#### 3.1.6 Further action

If a feasibility design study is recommended, state its overall scope here. If activity rejection is recommended provide a summary justification for this.

## 3.2 Activity preparation steps

This section provides the reader with a concise background to the proposal for the activity and an understanding of how the PSD has been produced. It also recommends the next steps required.

### 3.2.1 How the activity originated

#### **(a) The proposal**

Provide background on the proposal noting

- a summary of any formal request
- dates, content, organisation initiating original proposal and any proposal superseding or updating the original
- whether other donor agencies have been approached, or other funding arrangements considered by the partner government, and
- the steps the partner government has already taken to develop the activity, including reference to any existing activity documents.

Ensure that any key documents are referenced in the bibliography.

#### **(b) Preliminary preparation**

Provide a summary of AusAID's preparatory activities to date including reference to

- relevant country strategies and sector studies, and relevant decisions made in high level consultations
- initial discussions on the proposal undertaken between AusAID and the partner government, or a description of how the development opportunity was identified, and
- results of initial assessment by AusAID and the activity preparation plan developed after assessment.

Ensure that key documents are referenced in the bibliography.

### 3.2.2 Current preparation tasks

#### **(a) Team and mission**

Provide a brief overview of the composition of the team and the scope of its assignment. Do not describe the terms of reference. These should be appended as an appendix and referenced from this section.

Provide a brief summary of the duration and phases of the mission. Do not provide a detailed itinerary. This should be appended as an appendix on persons met and referenced from this section.

#### **(b) Key aspects of method**

Discuss very briefly the key attributes of the team's methodology, referring for detail to the appended terms of reference for the mission and any relevant working papers. Key aspects of method should include any special surveys or analysis required during preliminary preparation. Mention should be made of how local partners have been involved in the prefeasibility process. This should include communities, where relevant, as well as government institutions. The use of workshops, field visits etc should be discussed. Mention should be made of the analysis method used to produce the outline logframe (if one is being used).

### 3.3 Analysis

This section should provide an analysis of development issues and develop in broad terms some potential responses. It should stand alone as a rationale for proceeding, or not, to a further design phase (including a feasibility design study).

Prefeasibility design teams may choose to produce a conceptual logframe. This should be presented in tabular form as an appendix.

Where necessary this section should refer to individual working papers prepared by team members. These should be appended as appendices.

#### 3.3.1 Development constraints and issues

##### **(a) The existing development context**

The section should note

- main findings of the initial poverty analysis (undertaken by the team or sourced from existing documents)
- key partner government policies and strategies in the sector noting those that attempt to deal with the problem
- activity locations as requested by the partner government
- key institutions and their roles
- key technical issues
- key financial and economic issues

- key environmental issues, and
- key cultural and social issues.

**(b) The people involved**

Make an initial assessment of the likely stakeholders. At this stage it is sufficient to identify major stakeholder groups, ie those groups who are currently affected by the problem or are contributing to it, or who are employed by the partner government to deal with it. Note their likely influence on the success or otherwise of any development initiatives.

Groups to consider will include different parts of the partner government, community and NGO groups and any groups within private industry who may be affected or involved. Describe the capacity of various groups to participate in development activities.

**(c) Other programs**

Note any relevant partner government programs in the sector. State briefly what they are attempting to do. Describe how they fit into national or regional policies and strategies. Note any related Australian activities or those funded by other donors or international or local NGOs. State where there are gaps and possible complementarities.

Note the priority given to the field by the partner government and the priority it has assigned to the proposal. Note if any other agencies have been approached to fund the proposal.

Note AusAID's country and/or sectoral strategies. Briefly describe broad lessons from previous AusAID experience of implementing activities in the sector, country and region. Make use of AusAID's Knowledge Warehouse (AKWa) for this. This can be found on the AusAID Internet or on the Intranet. Valuable categories of information include good practice examples, evaluations and completion reports. In addition, Activity Managers and prefeasibility design teams can contact AusAID's Information and Research Services Unit for a more comprehensive listing of key activity documents including designs, mid term reviews and completion reports. Make use of evaluation and sector reports from other reliable sources.

**(d) Development constraints and opportunities**

Describe the specific development problems the proposed activity would address. Place development problems in the context of national or local policies, strategies and programs. Some of the analysis methods normally used at the feasibility design stage may be modified as appropriate for prefeasibility study application. For instance, problem tree analysis may be of considerable use at this stage of the activity cycle.

If significant analysis has been provided in documents from the partner government or other donor agencies this should be summarised and referenced in the bibliography.

### 3.3.2 Possible options

Outline a range of options for possible AusAID support. Demonstrate that these have been fully and frankly discussed with stakeholders. If required by the terms of reference, suggest a preferred option or options, along with reasons why. If an activity is not feasible or sustainable in any form, state that here with a supporting rationale.

For each option, provide an analysis of the following

- the expected impacts and benefits
- the potential risks, especially if these are likely to be unacceptable or impossible to deal with (these are further examined in 'Preliminary risk assessment'), and
- the likely major stakeholders.

Describe the possible form of aid that might be suitable for each option. Options should not be artificially restricted to standard models such as projects, facilities or cofinanced activities. Recommendations on forms of aid should be supported by the analysis of the development problem and context.

Consider the capacity of other Australian government agencies to assist either through existing programs or some form of involvement in the proposed options.

Comment on feasibility and sustainability issues that any ensuing feasibility design study will have to deal with in more detail. Comments should cover the following broad categories

- impact on poverty reduction
- manageability
- technical feasibility
- financial and economic viability
- social and gender feasibility and impact
- institutional capacities and budgets
- environmental impact (including any statutory requirement for assessing and managing environmental impacts), and
- political and economic factors external to the activity.

At this stage a full logframe is neither desirable nor necessary. However, the prefeasibility study team may produce a summary logframe, or be instructed to do by their terms of reference. It is suggested that logframes submitted as part of PSDs only contain the narrative summary, at the most to output level, plus an assumptions column.

For more information refer to AusGuideline 3.1 *Principles of Activity Design*, AusGuideline 3.2 *Selecting Forms of Aid*, and AusGuideline 3.3 *The Logical Framework Approach*.

## 3.4 Activity development

### 3.4.1 Broad objectives

Define the broad objectives for each proposed option and show how these are realistic and consistent with AusAID's country and cross cutting strategies on poverty reduction, gender and environment. Demonstrate that they are consistent with the partner government's development policies and strategies. Show also how beneficiaries' needs and views are reflected in objectives.

If possible it is preferable, but not mandatory, to identify outputs at this stage. The choice to do this or not will depend primarily on the extent to which discussions with stakeholders show a consensus on what is needed.

### 3.4.2 Likely financial scope of activity

If possible, provide a broad-brush estimate of costs for both Australia and the partner government. Make it clear that these are rough estimates and would need to be refined at the feasibility design stage, if and when a decision is taken to proceed. This is to avoid raising expectations among stakeholders that an activity will be provided with a certain amount of funding.

## 3.5 Preliminary risk assessment

This section provides AusAID with an initial assessment of the key risks for each proposed option. If the prefeasibility study team is recommending that there are no feasible options, it is likely that the preliminary risk assessment will be an important element in justifying this.

### 3.5.1 Assumptions

Identify the major assumptions that are made in defining objectives. For each objective state if there are any circumstances outside the likely control of the activity which, if they occurred, would prevent the achievement of the objective. These assumptions would be analysed further at any feasibility design stage.

### 3.5.2 Risks

Identify broad risks to both implementation and sustainability. If possible, mention potential risk management strategies. A full risk management strategy would be developed at any feasibility design stage.

Consider risks in the following areas

- institutional
- commercial
- technological
- economic
- financial/budgetary
- environmental
- gender and social
- political

If an activity has significantly high risk factors it may be advisable to recommend it does not proceed. State that here.

For more information refer to AusGuideline 7.3 *Managing Risk*. If environmental impacts are likely, refer to *Environmental Management in AusAID – Summary*, and *Environmental Management Guide for Australia's Aid Program*.

### 3.6 Preliminary Sustainability Analysis

Prepare a preliminary sustainability analysis, identifying and analysing of the main factors that are likely to have either a positive or negative impact on sustainability. There will be overlaps with the risk assessment as this should have identified risks to sustainability. At prefeasibility stage the level of detail and analysis will usually be broad, but should be sufficient to identify any grounds for rejecting the proposal on the basis of a lack of likely sustainability.

If possible, identify possible sustainability strategies specifying how each of the identified risks to sustainability could be addressed. The level of detail would be expanded and refined during any feasibility design stage.

For more information refer to AusGuideline 6.4 *Promoting practical sustainability*.

### 3.7 Forthcoming feasibility design work

#### 3.7.1 Further action

State briefly the need for further design work, if required. This will often be a feasibility design study. Prepare and attach terms of reference for the feasibility design study.

### 3.7.2 Feasibility design requirements

If a feasibility design study is recommended, briefly summarise requirements. More detailed requirements will be appended in the terms of reference. This section should cover

- likely data requirements for the feasibility design study, including any need for baseline survey work
- data already available
- expertise required
- any major preparations required in country or support facilities the team may need
- locations that team should visit
- institutions and groups that should be consulted, and
- the skills required on the team and likely time requirements.

For more information refer to AusGuideline 6.1 *Preparing Terms of Reference*.

## 3.8 Suggested appendices for the PSD

The following are a range of appendixes that might usefully be attached to the PSD. Those marked with an asterisk are required. The remainder are optional and should be included as appropriate. The Activity Manager should be consulted about the attachments required for the PSD.

- prefeasibility study terms of reference\*
- itinerary and people met\* (including their positions)
- working papers
- bibliography\*
- summary conceptual logframe
- feasibility design study terms of reference\* (required if recommending further design work)

## 3.9 Associated documentation

The following is documentation that AusAID may also require as a result of the prefeasibility study. This documentation is not appended to the PSD, but is provided separately. The Activity Manager will determine the associated documentation required in the prefeasibility study terms of reference.

- updated activity preparation brief