

AusGuide

Part
3B **Preparing activity designs**

Associated guidance on activity design

Part 3A *Identification and assessment of initiatives*

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 3.4 *Undertaking a prefeasibility study*

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*

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1 Introduction

1.1 Programs and activities

AusAID delivers Australian Government aid through a number of AusAID development programs. Most AusAID development programs consist of a package of development initiatives (typically called "development activities" or just "activities") implemented in developing countries under a clear program strategy. These AusAID activities involve

- all forms of aid, and
- a range of development partners, particularly Australia's partner governments in Asia and the Pacific.

Information on forms of aid (including aid modality, type of delivery organisation and financing arrangement) is consolidated in AusGuideline 3.2 *Selecting forms of aid*.

1.2 AusAID's corporate guidance

AusAID presents its guidance on designing high quality development activities in three major Parts of AusGuide:

- Part 3A *Identification and assessment of initiatives*
- Part 3B *Preparation of activity designs*
- Part 3C *Appraisal and approval*

which are supported by more detailed AusGuidelines on key tasks and topics.

Part 3A, *Identification and assessment of initiatives*, covers the identification and development of a new aid initiative under an AusAID program strategy from the initial work planning to develop a new initiative to the point where:

- a preferred option (or options) for a new development activity has been identified, documented and assessed, and
- AusAID has decided, usually in conjunction with its development partners, whether or not the activity option(s) has sufficient merit to warrant proceeding to detailed design.

This part of AusGuide, Part 3B *Preparation of activity designs*, outlines this detailed design process. The subsequent part, Part 3C *Appraisal and approval*, covers the appraisal and, if warranted, approval needed for the activity to proceed to implementation.

This guidance needs to be tailored to the particular circumstances of each activity. In recent years, the preparation process has been broadened to better encompass:

- the full range of forms of aid
- the needs of development partners, notably partner governments in Asia and the Pacific
- the contributions of other Australian government departments and agencies in achieving Australia's international development and national interest objectives via a Whole of Government (WOG) approach
- more innovative design processes and
- more thorough analysis of the potential options, particularly form of aid options, during the early design phase.

2 Purpose and scope

The purpose of the preparation stage is to produce a high quality activity design, adequately recorded in clear and readable activity documentation. A sound design is one of the key attributes of high quality aid (see Annex A *Aiming for quality in activity preparation*).

In particular, the activity design needs to

- establish by sound analysis what benefits will result from successful implementation of the proposed activity
- establish by sound analysis that the activity is feasible: that is, that if the activity is implemented in accord with the proposed activity design, then
 - the planned work of the activity can be successfully carried out, and
 - the planned outputs and/or outcomes can be successfully produced
- include the information needed to support the identification and/or selection of a delivery organisation (and the preparation of the necessary delivery agreement), if a delivery organisation is part of the design. (This includes the information required for public tendering, selection and contracting where the planned delivery organisation is a managing contractor)
- include the design information needed for effective and efficient implementation by all the planned development partners to produce the planned development benefits.

This is the information required for the Australian Government to firmly commit aid funds to support that activity. In particular, it is the information needed for the Minister (or Ministerial delegate) to give FMA 9 approval for implementation.

Additional information on the issues which may need to be considered in assessing the quality of an AusAID activity design is presented in AusGuideline 6.5 *Activity Quality Standards*.

3 Considering the form of aid

The activity preparation process requires determining the form of aid which is most appropriate to achieve the intended objectives of the activity. Forms of aid consist of three elements: the aid modality, the delivery organisation and the financing arrangement.

The **aid modality** covers the degree to which the Australian resources are integrated into the partner government's programs, systems and institutions. Four modalities are distinguished:

- macro-policy support (covering support for macro-economic and/or basic social policies)
- support to partner programs (whether sector-wide or issue-based)
- stand-alone project support, which supports the delivery of a program of development inputs and/or development work over a period of time for a clear development purpose and is not macro-policy or partner program support
- non-standard and ad-hoc assistance which does not fit into any of the other three categories.

The **delivery organisation** is the organisation responsible and accountable for managing the delivery of the Australian government aid resources. This may be a contractor or other service delivery organisation, a partner government agency, an international development organisation, an Australian government agency or a civil society organisation such as an NGO.

The **financing arrangement**, describes how the funds are made available, such as by direct payments to partner governments, by commercial contracts, by payments to Australian government agencies or their staff, by accountable cash grants or by direct purchase and delivery by AusAID.

The different ways of delivering aid are not mutually exclusive, and a suite of options is available for designers which are addressed in AusGuideline 3.2 *Selecting forms of aid*.

4 Planning and Management

4.1 Initial work planning

The initial management step for activity preparation is to

- indicatively plan and schedule the main steps for the entire activity preparation stage and
- define the team who will play a role in those main steps, consisting of
 - areas within AusAID
 - external development partners.

An initial activity preparation plan should be developed which outlines and indicatively schedules the key main steps, and the main roles of the internal and external team members in these steps.

4.2 The team based approach to design

A designated AusAID work unit will be responsible for activity preparation. The team which contributes to preparation typically comprises:

- an *internal AusAID design* team comprising the program desk, the Post, an AusAID sector adviser, the Consultancy Services Group (CSG) and any other specialist area required
- other Australian Government agencies, as relevant
- partner governments and
- other development partners, such as multilateral organisations, other bilateral donors and NGOs.

Private sector consultants are usually contracted to provide specific inputs. Small teams of consultants often conduct studies and field missions. Posts are encouraged to develop knowledge of local consultants who can be utilised to provide expertise in key sectors, or areas of design analysis such as institutional or gender analysis.

Relevant material on the roles and responsibilities of key AusAID areas involved in the internal AusAID design team is presented in Annex B of Part 3A *Identification and assessment of initiatives*.

4.3 Planning relative to the approval to implement

The initial FMA 9 approval to commence implementation of a development activity is a key corporate decision point. Relative to this key decision point, there are two alternative basic approaches to activity preparation:

- first, where activity preparation is finished prior to seeking FMA 9 approval to commence implementation - so that a *final activity design* is prepared and appraised prior to obtaining the initial FMA 9 approval for implementation
- second, where FMA 9 approval is sought prior to completion of activity preparation, with additional preparation work (and perhaps an additional appraisal) planned to finalise the activity design in the post-approval period.

Planning will need to be based on one of these two options (although the decision can be varied during preparation).

The choice between these two approaches will be based, amongst other things, on an assessment of the relative risks of the two approaches. There are often risks and uncertainties in proceeding to implementation with the design analysis (and design documentation) unfinished - and these risks and uncertainties will be high in some circumstances.

In any event, in order to prepare a well based approval submission for the initial FMA 9 approval to implement, the responsible AusAID work unit must be able to assure the delegate in writing that, even if further design analysis (and even appraisal) is needed to finalise the design, the available information and analysis establishes that

- proceeding to implementation will yield development results which are benefits relative to the policies and priorities of the Australian Government (and our development partners) and
- these benefits are sufficient to justify the level of Australian Government (and partner) resources that will be committed.

4.4 Preparation paths - preliminary and final preparation

There are a number of paths that can be chosen in order to prepare the final activity design. The selected path is outlined in the activity preparation plan.

Where activity preparation will be finished prior to the initial FMA 9 approval to implement, the activity preparation plan will extend to the initial approval point. However, where approval to implement is sought on the basis that the design will be finalised by post-approval work, the preparation plan will extend to the point at which AusAID agrees the final activity design.

Thus, AusAID activity preparation plans may involve both studies prior to initial approval to implement, and post-approval design work, including design studies. This work is often undertaken during implementation.

For financially small and/or simple activities, it is common to undertake one single, integrated activity preparation step to prepare the final design. For major and complex development activities, design preparation is often a two step process involving a preliminary preparation phase (such as a prefeasibility study) followed by a final preparation step (such as a feasibility and design study).

The differences between a prefeasibility study and a feasibility and design study are set out in Annex B *Aims of prefeasibility and feasibility and design during activity preparation: a comparison*. Information on how to undertake each of these studies is summarised below and more fully covered in

- AusGuideline 3.4 *Undertaking a prefeasibility study*, and
- AusGuideline 3.5 *Undertaking a feasibility and design study*.

4.5 Assessing the activity design options

The options available for an activity (including the form of aid) need to be carefully assessed. In many cases, this will lead to one clearly preferred option at the end of the preliminary preparation phase, which then forms the focal point for final preparation. In other cases, a number of options still need to be considered at final preparation.

It is important not to close off consideration of alternative ways of achieving the activity's objectives too early. The Terms of Reference (TOR) for each design step can determine how options are treated.

The Activity Manager should utilise the team based approach, as well as the findings of early design missions, to ensure all relevant options are fully canvassed during preparation.

5 Preliminary preparation

5.1 When to use preliminary preparation and the options

The Activity Manager should consider an activity proposal for preliminary preparation if some or all of the following are true:

- the activity is not yet defined in a clear and realistic manner
- initial assessment indicates that the activity is likely to be complex

- there is insufficient information to prepare TOR for a feasibility study
- there is concern that significant issues, such as institutional, sectoral or cross-cutting, may affect the activity's success
- there is concern that negative social or environmental impacts may be associated with the activity.

There are three main options for preliminary preparation:

- prefeasibility studies
- desk studies
- further data gathering.

If appropriate, an outline logical framework and TOR for a feasibility and design study are developed when undertaking this preliminary preparation phase.

This preliminary preparation stage is not always necessary. In some cases the activity proposal may be sufficient to proceed directly to detailed preparation or to appraisal.

5.2 Prefeasibility studies

5.2.1 Purpose and main uses

The prefeasibility study (PFS) is the most common and the most resource intensive of the preliminary preparation options. Its standard use is during activity preparation, when its main purpose is to ensure there is a solid basis for undertaking a feasibility and design study.

However, a prefeasibility study can also be used as the initial field mission undertaken during activity identification to provide a basis for the key AusAID decision on whether or not to proceed to activity preparation.

The tasks and TOR 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.

5.2.2 Main tasks

For a prefeasibility study during activity preparation, the terms of reference should make it clear whether the study is intended to

- review a range of options and prepare prefeasibility documentation on each
- investigate a range of options, but recommend and prepare full prefeasibility documentation on only one, or

- undertake prefeasibility analysis and prepare documentation on an already identified option.

The specific tasks of each prefeasibility study should be spelt out in its TOR. In general terms, the main tasks of prefeasibility studies during activity preparation are to

- 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 (or activities), 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.

5.2.3 When used in activity preparation

The prefeasibility option can be used in activity preparation if any one of the following is true:

- there is a serious lack of information on the development problems to be addressed by the activity and this needs fuller definition through an in-country visit by technical specialists before a feasibility study can be undertaken
- the activity proposal is poorly defined and needs to be discussed in-country
- there is insufficient information to prepare TOR for a feasibility design study
- there is a need for a two phase engagement with partner government authorities, or other partners or stakeholders, to build engagement and ownership.

A prefeasibility study usually requires a team of specialists to visit the country concerned and undertake investigations in the field. At the end of the study, a prefeasibility study report is

produced. Based on the report, a decision is made, in consultation with the peer review group, to recommend that the activity either proceeds to final preparation or is rejected.

As the nature and conduct of a prefeasibility study depend on the particular activity involved, more details on how to undertake a PFS, prepare a Prefeasibility Study Document (PSD) and meet general reporting requirements are set out in AusGuideline 3.4 *Undertaking a prefeasibility study*.

5.3 Alternatives to a prefeasibility study

A formal PFS may not be needed if other approaches can provide the information needed to decide whether to proceed to the feasibility study stage. These approaches include desk studies, other data collection exercises, or making use of analytical work undertaken by other donors.

Issues to be considered in undertaking desk studies or commissioning special studies rather than an PFS include whether or not:

- the information gathered would satisfy the key information needs of the feasibility and design study
- key design issues and risks (such as political, institutional and organisational capacity) can be understood without a PFS
- participation and ownership by the partner government and other stakeholders would be adversely affected by the absence of field consultation during the PFS
- the overall preparation path planned for the activity would still allow sound design principles to be met.

The AusAID Desk and Post may undertake or commission further data gathering activities to address specific and limited information gaps. Such gaps may relate to:

- aspects of the proposal itself (e.g. uncertainty over the lead implementing agency)
- gaps in information needed for the preparation of the feasibility and design study TOR.

The prefeasibility study document (PSD), or related reports arising from these studies, should clearly set out the activity proposal, provide an initial assessment of the overall worth of the activity and include draft TOR for a feasibility and design study, if found warranted.

5.4 Assessment of preliminary preparation findings

It may be necessary to undertake a formal assessment of the output of preliminary preparation. This is advisable, for example, if a detailed prefeasibility study report has been produced.

Even without formal assessment, emerging findings, and draft reports or other design documents produced during preliminary preparation, should be forwarded to the members of the design team - particularly the internal AusAID design team and our development partners - for peer comment and input.

After a PFS, the Activity Manager arranges an assessment of the quality of the prefeasibility study report, or related preparation study, to ensure that there is enough information and analysis:

- to be able to make informed decisions on whether to proceed to the next stage and
- to provide the necessary base for the feasibility and design study.

A full formal assessment of the PFS report by a sector adviser may be required at this stage for large or complex projects or programs.

Where a prefeasibility study was undertaken as part of activity identification, it will be subject to the formal assessment processes described in AusGuide Part 3A *Identification and assessment of initiatives*. If the activity has an envisaged size of more than \$3 million, this will typically include a Concept Peer Review Meeting (CPRM) as well as general peer review by the AusAID design team.

6 Final preparation

6.1 Purpose and options

Final preparation is a crucial step for ensuring a high quality design and can take various forms. Options available include

- feasibility and design study (FDS)
- desk study design
- combining FDS with appraisal.

The primary aim is to produce a high quality activity design, adequately recorded in clear and readable activity documentation. The typical content of such documentation is set out in AusGuideline 3.5 *Undertaking a feasibility and design study*.

This design (and documentation) is appraised prior to approving the activity for initial implementation. However, a progressive design process can be undertaken for some activities where aspects of the final design and its documentation are prepared during the first phase of

implementation. Such an implementation and preparation strategy needs to be considered on its merits by the design team and Activity Manager.

6.2 Feasibility and design study (FDS)

6.2.1 Scope

For most major activities, it will be necessary to undertake a FDS study to meet the needs of the preparation process. The main purposes of an FDS are to examine and confirm the work undertaken to date on the feasibility of the activity and to further develop the preferred design, generally to the point of producing draft final activity documentation.

The FDS requires a team of specialists to visit the partner country and undertake detailed investigations in the field. A FDS can take up to several weeks or months. It requires considerable consultation with and involvement of partner government and other stakeholders.

It is important to have a strong professional team, with an appropriate mix of expertise and comprehensive and clear TOR. Adequate time in the country is also essential.

The study is intended to ensure that the design option chosen for the activity has benefits which justify the necessary resources, and is feasible and potentially sustainable. Where the study team is satisfied that the activity is likely to have sufficient benefits and be feasible, it proceeds to articulate the activity design in detail and prepare draft final activity documentation. For more information, see AusGuideline 3.5 *Undertaking a feasibility and design study*.

6.2.2 Main tasks

The main tasks of the FDS study will usually include

- confirm the analysis of the development situation and rationale for undertaking the activity
- confirm and describe the linkages between the activity proposal (or activity options) and poverty reduction, taking into account the findings of a poverty analysis
- confirm partner government and other stakeholder willingness to commit the necessary levels of resources to potential activities
- confirm and refine (or develop) a logical framework matrix (if one is being used), including achievable outcomes and outputs of the activity
- examine the viability and benefits of the proposed activity (or set of activity options) in detail and assess whether implementation is feasible and would have sufficient benefits to

justify the necessary resource expenditure (by both the Australian Government and development partners).

If the team's analysis indicates that the preferred activity option is feasible and would have sufficient benefits to justify implementation, the team will proceed to develop and document a full activity design in accord with its TOR. The team will usually

- work with the partner government (and/or other key stakeholders) to define and cost their contributions both for the activity period and after activity completion.
- develop and document a full activity description and rationale, including a clear description of necessary contributions by the Australian Government and other development partners, and any strategy for the use of a delivery organisation to deliver and manage the Australian Government contribution
- develop full risk and sustainability analyses
- develop a Monitoring and Evaluation (M&E) framework as an integral part of the design (including performance indicators), based, inter alia, on the logical framework matrix (if prepared)
- when required, undertake a detailed Environmental Impact Assessment, and develop an Environmental Management Plan (or specifications for an Environmental Management Plan) and complete the Environment Protection and Biodiversity Conservation Act Form
- develop the design to the point where it is costed in detail and can be used to select a delivery organisation and prepare a delivery agreement
- develop draft scope of services, and basis of payment for any planned contract, and also suggested inclusions for the memorandum of understanding against which the activity can be implemented.

6.3 Desk study design

A desk study may be a substitute for a FDS in some special circumstances, such as where:

- the available design information is generally adequate but needs minor work
- partner government and other stakeholder involvement in the design process is not likely to be adversely affected
- there is sufficient sound information available on risks, risk management and potential sustainability to make informed judgements.

A desk study may also be used for re-design work to take into account:

- changes in Australian policy which impact on the activity

- design issues arising before or after the appraisal of the draft activity documentation changes in funding
- design issues arising from the form of aid, such as in co-financing arrangements.

6.4 Combining a feasibility and design study (FDS) with the appraisal study

A field appraisal is sometimes undertaken during the latter stages of a FDS. This approach can save time in finalising the design by enhancing interaction between the FDS and appraisal study teams and the partner government. If the process works well, changes made to the design can potentially be incorporated whilst the design team is still in the field.

To be effective:

- the design and appraisal teams need to be made aware in advance of the combined design/appraisal process and have the approach reflected in their respective TOR
- the design team needs to be able to produce adequate documentation for appraisal
- the appraisal team needs to be well informed about the activity
- the respective teams, particularly Team Leaders, need to be willing to cooperate without compromising their respective professional responsibilities and TOR
- the partner government and agencies involved can accommodate two teams
- the independence and professionalism of the appraisal process is maintained. See *AusGuide Part 3C Appraisal and approval*.

7 Finalising the activity design & documentation

7.1 The activity design and main activity document

Once draft activity documentation is sent to AusAID, the Activity Manager normally seeks comments from:

- other program officers
- CSG for any contractual implication resulting from the design
- relevant sectoral advisers on sectoral and design issues connected with the activity concerned

- the Post
- relevant other Australian government departments
- the partner government
- where appropriate, independent specialist consultants (such as those on technical advisory groups (TAGS))

Such a consultation process will contribute to finalising the draft activity design (and the documentation) which will later be subject to the appraisal and approval steps outlined in AusGuide Part 3C *Appraisal and approval*.

7.2 Updating Aid Works & the Activity Preparation Brief

Information made available at the end of the prefeasibility and feasibility stages is used to update AusAID's activity management system, Aid Works (formerly the Activity Management System - AMS).

In particular, the information is used by the Activity Manager to update the Activity Preparation Brief (APB). The APB provides a succinct summary of an activity's rationale, objectives, components, main issues, costs and preparation plan.

The APB is used to document and disseminate information during the preparation phase of an activity and provides a vehicle for consultation and decision making. The study TOR may provide for the study team to produce a draft updated APB as part of its work. This will then need to be carefully reviewed by the Activity Manager.

8 Deciding next steps

The preparation plan previously developed for the activity will need to be updated following the findings of the preparation studies (whether a prefeasibility or a feasibility and design design study) and decisions taken on proceeding to the next phase. Guidance on this phase, appraisal and approval, is set out in AusGuide Part 3C *Appraisal and approval*.

The Activity Manager will need to seek approval for funding (via an FMA 9 submission) to proceed to the next preparation stage. The minute to the appropriate delegate, seeking approval to spend public funds, should have the following attachments:

- copy of the APB,
- a copy of the Logframe summary (if prepared), and
- an updated preparation plan for the activity.

A Aiming for quality in activity preparation

A fundamental principle that guides activity preparation is to aim for excellence in aid delivery and outcomes. There are four key attributes of good quality aid.

Good quality aid activities have:

- appropriate objectives and design
- achieve their objectives
- are managed in a professional manner and
- have sustainable outcomes.

Each of the four attributes of good aid has a number of indicators. As these refer to activity preparation, the attributes and indicators are:

- appropriate objectives and design:
 - appropriateness of objectives
 - partner government participation in design
 - adequacy of design process and
 - standard of final design
- professional management:
 - timeliness of preparation
 - standard of contract
 - strength of partner government support and value of dialogue and
 - AusAID's management and use of human resources
- achieve their objectives:
 - likely success in achieving objectives and
 - extent that benefits reach the target population
- sustainable outcomes:
 - sustainability strategy
 - sustainability of grassroots benefits
 - sustainability of improved institutional capacity and
 - partner government's maintenance of future recurrent budget.

Incorporated in these attributes are other important principles that should guide activity preparation. Outcome-orientated designs, consultation and partnership are essential to good design and delivery whilst accountability, flexibility and efficiency are critical to good management. For further information on the quality standards and quality indicators consult AusGuideline 6.5 *Activity Quality Standards*.

B Aims of prefeasibility and feasibility and design studies during activity preparation: a comparison

The aims of prefeasibility

The aims of feasibility and design

The development situation

To undertake a detailed analysis of the development situation and constraints the activity is to address, and to identify partner government policies, programs and activities designed to address these constraints (including activities of other donors).

To confirm the development situation and constraints and develop the rationale for undertaking the activity.

Responses to the problem

To refine the activity proposal in a clear and realistic manner and make a preliminary assessment of the viability of alternative approaches.

To examine the viability of the options in detail and to recommend whether implementation is feasible. If so, to recommend a preferred option.

To confirm partner government and other stakeholder willingness to commit resources to specific activities.

The activity design

To define achievable and sustainable outcomes for the activity or to define possible design options or concepts that may merit further investigation.

To confirm and refine the achievable and sustainable outcomes of the activity.

To develop the design to the point where it is costed and can be tendered and implemented. This includes consideration of appropriate contracting mechanisms as part of design.

Monitoring risk and sustainability management

To make a preliminary identification of likely risks to achieving objectives and sustainability and assess the importance of these risks.

To develop a full risk analysis and a full sustainability analysis which can be used by implementers in managing risk and sustainability.

To develop performance indicators as an integral part of the design (through the logical framework approach and reference to AusAID's overall objectives).

Further action

To develop TOR for a feasibility and design study if this is deemed appropriate.

To develop draft scope of services, basis of payment and suggested inclusions for the memorandum of understanding against which the activity can be implemented.

To define further data collection and analysis requirements, and possible data sources, for the feasibility/design stage.