

**GUIDELINES:  
PREPARATION OF APPENDIX A  
TO INVESTMENT AND LOAN AGREEMENTS**

1.0 What is the Appendix A?

The Appendix A is the legal description of the project. It sets out the agreement between parties (USADF and the client) on their respective obligations specifically related to the implementation of the project, including what is to be accomplished, how it is to be accomplished, by whom, and within what time frame. Unlike the description of the project in the investment proposal, the Appendix A is an integral part of a binding contract on which either party may take legal action in case of a breach by the other party.

The Appendix A should comprise an unambiguous description of project implementation, that is, one that reduces the risk of disputes between the parties. It is therefore critical that the Appendix A is concise and succinct – yet comprehensive. It must be accurate and realistic in its expectations of what is to be accomplished. The objectives described in the Appendix A must be logically related and internally consistent. The prerequisite for achieving these standards is a project design that is based on solid data and hard analysis.

*Writing tip:* To assist in avoiding ambiguities, write in the active tense rather than the passive tense -- so that it is clear who is responsible for taking action.

2.0 What should Appendix A contain?

Attachment I to this document is the template for the preparation of Appendix A. All Appendix As should follow this template. The following is a section-by-section explanation of the template.

2.1 Section I. Introduction

This section states the purpose of Appendix A and its relationship to the overall agreement. The language in the template is standard and should be inserted into an Appendix A with no changes.

2.2 Section II. Background

The background sets the context for the project. It describes the opportunity or problem the investment will address.

*Example:* Growth in population and household incomes in the Tamaske region of Niger have increased the demand for housing, and consequently resulted in a shortage in building supplies. The manufacture of building materials

is the only source of income for members of Bok Khalaat Women's Cooperative. However, poor product quality prevents the Cooperative from capitalizing on this new market opportunity.

This example describes the opportunity: there is unmet need in the market. In addition, it identifies the conditions that must change to enable our client to benefit from the opportunity: poor product quality and weak production capacity. Changing these conditions should be a focus of the project's outputs and activities.

### 2.3 Section III. Funding

- 2.3.1 ADF Contribution: Insert the standard language as contained in the template.
- 2.3.2 Client Contribution: Estimate the total value of the client's contribution and the major categories for spending, e.g., construction, salaries, and so on. Do not include the Reinvestment Commitment.
- 2.3.3 Other Contributions: State contributions by others who are not a party to the investment agreement. If these contributions are critical to the achievement of the project's objectives, the other contributors must have made a binding commitment.

### 2.4 Section IV. Project Goal

The goal states the larger development objective of the project. It may envision a development impact at the community, regional, sub-sector, sector, or even national level (if ADF is collaborating with others). The goal is a long-term objective that the project is expected to contribute to, but not accomplish during the life of the investment. For this reason, there is no requirement to include objective measures of goal achievement in the Appendix A.

*Example:* The goal of the Project is to improve the standard of living for the residents in the Tamaske region of Niger.

### 2.5 Section V. Project Purpose

#### 2.5.1 Development Projects

The purpose states the development impact of the project. In order to have a development impact, a project must have a direct impact on the lives of people. The client must achieve this impact within the life of the project. It is therefore necessary for USADF and the client to agree on objective measures and targets for determining the desired impact. The targets must be realistic, but significant enough to make the investment a worthwhile one.

*Example:* The purpose of the project is to increase the average annual net incomes of Bok Khalaat's members as measured by an increase in income from CFA 4,000,000 in the Project's base year to:

- CFA 5,000,000 in Year 1;
- CFA 6,000,000 in Year 2;
- CFA 7,000,000 in Year 3;
- CFA 8,000,000 in Year 4; and
- CFA 9,000,000 in Year 5.

This is an appropriate purpose, since increase in incomes should have a positive people-level impact. Following on the example in the background section above, increase in income is a rational purpose since it would be the natural result of successfully exploiting the market opportunity. This purpose is also logically linked to the goal statement in the example above.

### 2.5.2 Other Projects

In addition to projects that have an immediate development (or people-level) impact, some USADF investments are intended to generate only intermediate results that do not in and of themselves have a development impact. These are capacity building projects and pilot projects. In the case of a capacity building initiative, the objective is to position an enterprise expansion.

*Example:* The purpose of the Project is to improve Bantaam's prospects for expansion, as demonstrated by the company's development of business plan that ADF deems suitable for funding by a financial institution.

The quality of the business plan, as determined by ADF's application of its review standards, is the measure of purpose attainment.

A pilot project is designed to test or demonstrate whether a technology or approach is viable.

*Example:* The purpose of the Project is to demonstrate the viability of harvesting pomegranate as a cash crop, as indicated by the following increase in the tonnage of the crop farmers supply to the project's collection center:

<u>Project Year</u>	<u>Tons</u>
Base	40
1	1,000
2	2,000

## 2.6 Section VI. Outputs

Outputs are the conditions or outcomes that must be created to exploit the opportunity described in the background section and to achieve the project's purpose. Generally, outputs can be expressed in terms of improved capacities.

*Example:* Bok Khalaat's capacity to produce high quality products will improve as indicated by an increase in revenues from CFA 44,000,000 in the Project base year to:

- CFA 88,000,000 in Year 1;
- CFA 176,000,000 in Year 2; and
- CFC 352,000,000 in Year 3.

*[Note: (1) the undesirable condition that needs to change or be eliminated is poor quality products; and (2) this output is logically related to attain Bok Khalaat's purpose.]*

*Example:* By the second year of the Project Bataam will have improved its management capacity, as demonstrated by the routine production of financial reports, which management uses to inform its decision-making.

*Example:* The pomegranate cooperative's capacity to provide services to its members will improved as demonstrated by a decrease in the number of members delinquent on their dues from 30 in the base year to 3 by the end of the project.

## 2.7 Section VII: Activities

This section describes the activities that will be undertaken by the client (and others on behalf of the client) to attain the results in the output section. Attachment II to this document discusses activities in relation to outputs and the project budget. Activities describe the what, who, how, and when critical actions are to be undertaken.

*Example:* The client will recruit a qualified expert to train the client's workers in quality control. By the sixth month of the project, a quality control expert will have trained all of the client's production workers and certified their skills meet established industry standards.

*Example:* By the third month of the project, the client will have upgraded its accounting through automation and hiring of a qualified accountant.

*Example:* During the first year of the project, the client's agronomist will establish a nursery that will provide seedlings for farmers participating in the project.

## 2.8 Section VII: Roles and Responsibilities

Insert the standard language from the template. If parties other than the client and the USADF country partner are critical to implementation, discuss the roles of the other parties.

## 2.9 Monitoring and Evaluation

Insert the standard language from the template. Modify it as necessary to describe any special provisions on monitoring and evaluation.

## 2.10 Section X: Other Implementation Issues

Discuss any key implementation issues that have not been addressed elsewhere in the agreement. For example, ADF and the client may have agreed that the client should expand its board of directors by two members. They also agree that the client must devote considerable time to find the right candidates, and therefore do not wish to make expansion of the board a condition precedent to disbursement. This issue may be addressed in this section by stipulating that the client will have recruited the new members by the third year of the project.