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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

**PIPM TRAINING PROGRAM
IN
PROJECT APPRAISAL - PART III**

ALMATY

08-18 July 1996

M I S S I O N R E P O R T

Prepared by:

**Janusz Lukasik - UNIDO Consultant
Backstopping Officer: L. Kurowski**

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I. Project Background.

The Training Program in Project Appraisal, organized under PIPM TACIS, consisted of 3 modules and spanned the period: May - July 1996. The first module, implemented between 27 May and 06 June 1996, concentrated on the introduction to investment project cycle, market analysis and technical analysis of the investment projects. The second, implemented between 17 and 27 June, covered principles of financial and economic analysis and appraisal and the third, to which this report pertains, concentrated on the applications of COMFAR III Expert - the UNIDO-developed software for financial and economic appraisal of investment projects. The third module was delivered between 08 and 18 July 1996.

I.1. Objective.

The main objective of the Program was to improve the skills of the group of officials from various Government agencies, banks and other parastatal institutions in the application of the UNIDO methodology for investment projects' preparation, appraisal and implementation.

The primary target group were the officials of the Government and parastatal institutions of Kazakstan (specifically: Ministry of Construction, Ministry of Economy and banks), who are - or in the foreseeable future are expected to be - directly involved in the preparation, appraisal and/or promotion of the investment projects in the Country.

I.2. Location.

The Workshop was held in Almaty, Kazakstan, at the premises of the Institute for Advanced Training of Public Servants, Ministry of Economy.

I.3. Facilities.

Conference room and training facilities were provided by the host institution, including seven computers of appropriate capacity, printer, blackboard, overhead projector and photocopying services. Whenever required, additional seminar rooms were also provided for lectures and group work involving case studies. Capable interpreting and secretarial services, as well as logistic support, were also secured by Organizers, thus contributing to the smooth and efficient implementation of the training program.

II. Description of the Workshop.

II.1. The Workshop.

Although the original program envisaged six 45 - minute sessions per day, as was the case in the implementation of the previous modules of the Program - at the request of the participants, some of whom had to report daily in their respective institutions - the basic daily workload was compressed into three 1.5 hours' sessions starting at 09.00 and ending at 14.00; thus giving participants the opportunity to attend to their respective office duties in the afternoon hours. The originally planned workload of 4.5 effective contact hours per day was nevertheless maintained by reducing the break times to 15 minutes each.

Another departure from the original program's timing, due to the airline flight schedule, involved changing of the weekly workload. Thus, the first week of the Program comprised of 6 working days - instead of the 5 originally planned for - and the Workshop was concluded on Thursday afternoon, 18 July 1996.

All lectures, exercises, case studies and discussions were delivered or moderated by the Consultant; however, the Consultant's work was made substantially easier by the help of Assistant - Ms Zhanat Ungarova - whose assistance was arranged by the PIPM Project Manager.

II.2. Workshop Program.

The following main topics were covered in the course of the Workshop's implementation within the limits of the time available:

- COMFAR III Expert - description of the software,

- COMFAR III Expert - hardware requirements and installation procedures,

- Graphical User Interface

- Menu bar: Data entry - introduction,

 - Data entry - detailed procedures,

 - Data entry - the use of Edit, Insert,

- Selection of results, Calculation module,

- Show Results module, overview and discussion of results,

- Cash flow for financial planning,

- Project's financial structure,

- Data inputs cont'd: sources of finance, profit distribution, taxes, allowances,

- Financial analysis:

 - Schedules:

 - Discounted cashflow,
 - Income Statement,
 - Balance Sheet,

Measures of project's viability:

NPV, short NPV,
IRR, MIRR,
IRRE, return on joint venture capital,
payback period,
financial ratios,

Analysis of the alternative financing structures

financial engineering and leverage analysis,

Menu bar: Graphics - break-even analysis,

Menu bar: Graphics - parametric analysis,

Menu bar: Sensitivity - discussion of sensitivity analysis,

Special features: J-V projects, cost allocation, cost escalation and inflation,

Module: Economic Analysis - value added approach,

Assign Economic Analysis feature,

Application of Paste and Split features,

Valuation principles,

Shadow pricing,

Indirect taxes,

Imported content of local cost items,

Value added content of local investment cost items,

Import substitution, Indirect effects

Discussion of schedules: value added analysis, net foreign exchange effect.

A brief demonstration of the cost-benefit analysis, together with the overview and interpretation of results, was also performed by the Consultant, however, due to the participants' relatively slow rate of progress in the first week - the reasons of which are explained in II.5. - there was no time to include any practical exercise on the subject.

Detailed timetable, indicating time allocation to particular subjects as well as exercises and case studies, is appended as Annex I.

II.3. Training Methods.

Training has been organized in accordance with the program. Throughout the Workshop four basic teaching methods have been applied, i.e.: lectures/demonstrations, discussions, exercises and case studies. In line with the practical orientation of the Workshop, the main emphasis was put on the active participation of each trainee through extensive use of hands-on exercises and case studies under the guidance of the Instructor.

Before any practical operations were undertaken by the participants each operation/procedure was explained by the Instructor. This was reinforced by the individual assistance of the Instructor and his Assistant in the course of work on the case studies, since the major objective was to give the Workshops' participants as much exposure to the practical problems' solving as possible.

Each participant received three basic handouts, translated into Russian, covering the three case studies implemented in the course of the Workshop i.e.: Tomato Canning Project and Growmania Garments Ltd. - two first cases from Comfar III Tutorial Manual, and Krylandia Spare Parts Manufacturing Workshop - the case prepared by the Consultant.

The participants received also copies of some of the overhead transparencies used by the Consultant in the course of lectures and discussions.

II.4. Exercises and Case Studies.

.For the purpose of familiarizing the participants with the software the following approach was assumed in the course of this Workshop. The "guided tour" demonstration of the software structure was initially performed by the Consultant, while the participants - organized in seven teams - followed every step of the process under the supervision of the Assistant. This initiation procedure included small exercises, during which the participants had the opportunity to familiarize themselves with the basic principles of the COMFAR III operation. At the next phase the participants solved the Tutorial Manual "Tomato Canning" case study in three stages i.e.: cost data inputs, financial data entry and dividends' distribution plan. Every stage was followed by the comparison of results, discussion and the summary conclusions performed by the Consultant, which included the discussion of the typical errors made by the participants. Final version calculation of results was followed by the analysis of the schedules and the viability criteria.

The second case, whereby the participants were expected to show higher degree of independence in their work, was "Krylandia Spare Parts' Manufacturing Workshop". The case is less structured and therefore requires more effort in organizing data inputs. The open-ended financing data of the case offers also good basis for more complex discussion and practical exercises in financial engineering. The case served also as vehicle for introducing participants to parametric analysis, break even analysis and sensitivity analysis features of COMFAR III.

The third case used extensively in the course of the Workshop , i.e.: "Growmania Garments Ltd." COMFAR III Tutorial Manual case was used for the purpose of consolidating the participants' newly acquired skills as well as for introduction of such features as joint-venture project, cost allocation and economic analysis..

Russian language versions of all three case studies are appended as AnnexIII.

II.5. Participants.

The Workshop was attended by 30 participants.

The composition of the participants' group was heterogeneous in terms of their background, level of preparation and previous experience, as could be seen from the list of participants appended in Annex II.

The level of interest and involvement on the side of participants was encouraging, since it appears to guarantee that they will proceed in acquiring additional knowledge, experience and expertise in the complex field of project analysis and appraisal. However, the level of computer literacy of the group was far from homogenous, which seriously hampered the progress of the program implementation during the first week of the Workshop.

The breakdown of the participants by their respective institutions is presented below.

No of participants:**Institution:**

13	Ministry of Construction,
4	Ministry of Economy,
2	Ministry of Industries and Trade,
2	Peoples' Bank,
2	EXIMBANK,
1	Lariba Bank,
1	Caspian Shelf Consortium,
2	Committee for Utilization of the Foreign Capital (KIIC)
2	State Property Committee, Enterprise Restructuring Agency,
2	Institute for Advanced Training of Public Servants,
1	Technical University.

III. Conclusions, recommendations.

Throughout the conduct of the Workshop, as well as in the course of informal talks held by the Consultant with individual participants, the following observations have been made, which may be treated as the conclusions and recommendations resulting from this mission.

III.1. Similarly to the previous modules of the PIPM Almaty training activities, the organizational aspects of the Workshop were highly satisfactory as was pointed out by the number of participants and experienced by the Consultant.

III.2. Inasmuch as the content of the third module of the PIPM Training Program in Project Appraisal is concerned, the objectives specified under I.1. have been successfully accomplished. The level of skills of the target group has been upgraded. Keen interest shown by the participants (both inside and outside the lecture room) in the subject matters of the Workshop program allows to assume with confidence that the acquired knowledge will be shared by the participants with their colleagues and workmates within their respective institutions.

III.3. Considering the differentiated background of the participants and the fact that the subjects presented throughout all three modules of the training program were to a large extent new to the majority of them, the intensive practical work is required - preferably under the guidance of the experienced project analyst - in order to solidify the newly acquired skills and techniques.

III.4. High level of interest shown by representatives of some of the participating institutions in acquiring COMFAR III Expert indicates that there is acute need for this type of software in the ministries and banks of the Country. This is corroborated by the generally poor standard of the locally prepared pre-investment studies and business plans as witnessed by the Consultant. The demand, however, would be much higher if the Russian language version of the program were available. It is therefore highly recommendable to examine all the possibilities leading into early release of the Russian language version of COMFAR III Expert.

III.5. Discussions held with the Rector of the host Institute indicate high interest at the Government level in establishing the training-cum-consultancy Center for Investment Projects' Development, Appraisal and Promotion within the Institute, which would cater to the needs of Government and Akims' administration level as well as to the needs of the emerging private sector. The institution building project concentrating on these issues should be seriously considered.