



Boston, September 11, 2006

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Reference: USAID Grant No. 654-G-00-03-00017-00
Establishment of Business Development HUB in Angola

Dear Mrs. Agedew –

This letter is in response to the USAID Regional Contracting Office communication of Tue 9/5/2006. We attempt to address the issues (listed in a numbered sequence) that you have raised and hope so to assist the process of modifying the subject Grant to extend the period of performance up to September 30, 2007 with an additional funding of US\$150,000 for Energy Economics activities.

Please do not hesitate to contact us should you need further assistance.

Best regards.

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1. We are not submitting any changes to the program description and the time schedule as described in the extension proposal submitted on June 25, 2006. With this letter, we attempt to provide a more detailed rationale for each of the budget items and their related objectives, as well as a budget narrative to justify the request of additional \$150,000 in support of Energy Economics activities.

2. Objectives that have not been accomplished as scheduled in the Grant and reasons for delays.

Rationale for submitting a no-cost extension

Since the beginning of the grant agreement on October 1, 2003, the Angola Educational Assistance Fund (AEAF) has worked toward the accomplishment of the objectives that were set in the original grant proposal. The establishment of Business Development HUB at the Catholic University in Angola was the first project that AEAF set to carry out with the support of USAID. However, AEAF had been operating in Angola since 1996 in several other educational projects undertaken together with the Catholic University, and thus had considerable experience. One of the major issues currently facing any organization in Angola has been and still is the limited number of educated and trained personnel. Selecting and recruiting staff – both managers and researchers - has been even more difficult than anticipated. Although AEAF was still able to comply with the scheduled objectives, the cost of these activities remained under budget due to lower than anticipated personnel cost. We have at the moment a projected surplus at the end of the 3-year agreement of \$209,989 (please see attached file 2006-09-11-usaid-extension.xls for a complete pipeline analysis from 10/1/03 through 9/30/07). After a careful review of the situation together with the program officer in Luanda, we decided to submit a request to USAID to extend the life of the Grant. Instead of setting out to ramp up spending to maximize the use of the funds, we felt that a better outcome for the project would have been reached by submitting a no-cost extension proposal, thus ensuring a continuous disbursement of funds and a longer time frame for assistance.

Training (CED) budget item

No funds have been disbursed so far for the Center for Enterprise Development activity. The initial planning phase was executed as one of the original grant objectives. A detailed business plan for CED was produced by CESSR/CEIC in 2005. The Catholic University (UCAN) is currently examining a proposal by the Cabinda Gulf Oil Company (CabGOC), the Angolan subsidiary of Chevron, which is interested in matching the allocated (and so far unused) funds in the amount of \$59,400 and provide more substantial long term (5-year) financial commitment to UCAN for this activity. We expect this activity to be completed and the funds disbursed on a quarterly basis by the end of the proposed extension.

3. Actual expenses to date by budget element and projected costs up to September 30, 2006¹.

The following table shows the projected cost to September 30, 2006. At this time, we have not completed the reimbursement requests for Q2 2006 and – obviously - for Q3 2006. For these 2 quarters we have used estimates that we believe to be sufficiently accurate.

<u>Budget Item</u>	<u>To-Date End of Q3-06</u>	<u>Total Budget</u>	<u>Balance</u>
Design Expenses (CESSR)	\$189,300	\$189,300	\$0
Personnel (CESSR)	\$507,962	\$560,350	\$52,389
Other Direct Costs (CESSR)	\$149,023	\$159,350	\$10,327
Program Expenses (CESSR)	\$166,750	\$166,750	\$0
Training (CED)	\$0	\$59,400	\$59,400
Travel	\$16,899	\$32,000	\$15,101
Equipment	\$12,283	\$17,500	\$5,217
<u>Research/Publications</u>	<u>\$67,795</u>	<u>\$135,350</u>	<u>\$67,555</u>
<u>Total</u>	<u>\$1,110,011</u>	<u>\$1,320,000</u>	<u>\$209,989</u>

Please note:

- Design Expenses budget item has been exhausted
- Program Expenses budget item has been exhausted, but the requested new funding of \$150,000 for Energy Economics activities will be put in this category
- Training (CED) has not been used yet, although we do plan to initiate disbursement of these funds during the next extension period (see comments in point 2)

¹ Please see attached file 2006-09-11-usaid-extension.xls for a complete pipeline analysis from 10/1/03 through 9/30/07

4. Projected costs for the extension period [October 1, 2006 to September 30, 2007] by budget element².

<u>Budget Item</u>	<u>Q4-06</u>	<u>Q1-07</u>	<u>Q2-07</u>	<u>Q3-07</u>	<u>Extension</u>
A. Design Expenses (CESSR)	\$0	\$0	\$0	\$0	\$0
B. Personnel (CESSR)	\$15,679	\$15,679	\$15,679	\$5,352	\$52,389
C. Other Direct Costs (CESSR)	\$0	\$0	\$0	\$10,327	\$10,327
D. Program Expenses (CESSR)	\$37,500	\$37,500	\$37,500	\$37,500	\$150,000
E. Training (CED)	\$14,850	\$14,850	\$14,850	\$14,850	\$59,400
F. Travel	\$5,633	\$0	\$5,633	\$3,835	\$15,101
G. Equipment	\$1,304	\$1,304	\$1,304	\$1,304	\$5,217
H. Research/Publications	\$16,889	\$16,889	\$16,889	\$16,889	\$67,554
<u>Total</u>	<u>\$91,855</u>	<u>\$86,222</u>	<u>\$91,855</u>	<u>\$90,057</u>	<u>\$359,988</u>

A. Design Expenses: this budget item will not be funded during the proposed extension period.

B. Personnel and C. Other Direct Costs: these budget items cover the allocation of AEAFF and CESSR/CEIC resources to grant administration and project management.

D. *see next page*

E. Training (CED): please see comments at point 2 and 3 regarding this budget item.

F. Travel: this budget item covers travel by AEAFF and CESSR/CEIC staff or independent consultants and associated with grant administration and project management activities.

G. Equipment: this items covers acquisition of equipment (typically office or electronic) allowed under the grant agreement and USAID allowance regulations.

H. Research/Publications: this budget item will carry some of the personnel costs (more than in the past) as a consequence of CESSR/CEIC transition from the design to the operational phase and will thus increase. As a result, we will triple the rate of disbursement under this budget item during the proposed extension period.

²Please see attached file 2006-09-11-usaid-extension.xls for a complete pipeline analysis from 10/1/03 through 9/30/07.

D. Program Expenses: this budget item reflects the \$150,000 proposed funding of Energy Economics activities. The breakdown³ is as follow:

<u>ENERGY ECONOMICS</u>	<u>Q4-06</u>	<u>Q1-07</u>	<u>Q2-07</u>	<u>Q3-07</u>	<u>Total</u>
a. Project Consultants	\$11,250	\$11,250	\$11,250	\$11,250	\$45,000
b. Trips from US to Angola	\$10,000	\$10,000	\$0	\$10,000	\$30,000
c. Trips from Angola to US	\$0	\$0	\$20,000	\$0	\$20,000
d. Energy Economics Outlook	\$0	\$4,000	\$4,000	\$3,200	\$11,200
e. Energy Economics Conference	\$0	\$0	\$0	\$15,000	\$15,000
f. Research Assistant	\$7,200	\$7,200	\$7,200	\$7,200	\$28,800
<u>Program Expenses (CESSR)</u>					<u>\$150,000</u>

a. Project Consultants: \$450/day, average of 25 days/quarter for consulting and project management. A work plan is currently being discussed with the Center for Energy Economics (CEE), a highly renowned institute of the University of Texas⁴. A researcher from CESSR/CEIC has attended in May 2006 a 2-weeks workshop organized by CEE in Houston. Building up on this experience, we plan to create a strategic partnership between CESSR/CEIC and CEE.

b. Trips from US to Angola: \$5000/1-week trip including airfare and lodging, we plan to have 6 trips in total by consultants to visit and work with CESSR/CEIC (2 trips each in Q4 '06, Q1 '07, and Q3 '07).

c. Trips from Angola to US: we plan to have 2 trips @ \$10,000 each (most likely in Q2 '07) by CESSR/CEIC researchers visiting the US for a period of up to 6 weeks and spending most of this time to work at CEE facilities in Houston to work on publications, other research topics to be determined, and to attend the annual New Era workshop organized by CEE every May.

³ Please note that we have modified the allocations used in the proposal extension submitted on June 25, 2006. The changes reflect more careful predictions of objectives, activities and associated expenses.

⁴ Please see <http://www.beg.utexas.edu/energyecon/> for more information.

d. The Angola Energy Economics Outlook: this will be an 80-pages publication first of its kind that will provide an analytical survey of Angolan energy policy at all levels of the economy and will also provide a series of recommendations to the Angolan Government and multi-lateral development organizations. Costs covered under this budget item will include research and survey work, as well as editing and publishing, We expect it to be distributed in Q3 '07.

e. Energy Economics Conference: this is a conference on Energy Economics to be held at CESSR/CEIC in Luanda in Q3 2007, thus toward the end of the extension proposal. The main objective will be to present the result of this activity and to prepare further developments. We anticipate 6 invited speakers and 250 attendees.

f. Research Assistant: this will be a full time position at CESSR/CEIC for a Research Assistant responsible for coordinating Energy Economics activities with CEE and other organizations, for conducting survey and research, for the publication of the Energy Economics Outlook, and for organizing the Energy Economics Conference.

5. Representations/Certifications for NGO Grant Awards have been completed and signed and are attached in file 2006-09-11-ngo-reps-certs-grant-awards.pdf.

6. Cost sharing.

Under the proposed extension, the Catholic University of Angola will make the following contribution (one-year period):

- Contribution to overhead costs, i.e. direct payment of a share
of the salaries of some of the CESSR/CEIC staff: \$35,000
- Rent, Internet, telephone (equivalent to about \$3,000/month) \$36,000

The anticipated cost sharing amount is therefore estimated at \$71,000

7. Anticipated program income.

The project will generate program income from a variety of sources: sale of publications, workshop participation fees, conference attendance fees, etc. However, income from these activities has been unreliable in the past and we do not expect this to change dramatically in the immediate future. More positive are the long term prospects for program income, with CESSR/CEIC continuing to enhance its reputation as the center of excellence for Angolan economic policy discourse.

Worth of mention at this point are additional funding mechanisms that CESSR/CEIC is currently utilizing:

- In December 2005, the commitment of \$250,000 by ESSO (the Angolan subsidiary of ExxonMobil) to fund a research project managed by CESSR/CEIC on the conservation of the Giant Black Sable, a rare antelope endemic to Angola that was once thought extinct. Funds in the amount of \$50,000 have already been disbursed to AEAF for further payment to CESSR/CEIC (following the same financing pattern we have implemented for the USAID project), with the remaining amount following later in 2006 and 2007.
- In March 2006, the award of about \$230,000 to the CESSR/CEIC by the Norwegian Embassy for the period April 2006 through September 2007. This has greatly increased the long term financial viability of the project.
- In May 2006, the commitment by Cabinda Gulf Oil Company (CabGOC), the Angolan subsidiary of Chevron, to finance with \$1,500,000 over a 5 year period the establishment of the Center of Leadership in Enterprise Development as a continuation of the Center for Enterprise Development objective as per the original USAID grant (please see discussion at point 2 re: Training (CED) budget item).

While USAID has been crucial in launching this project with the first funding in 2003, the subsequent success has attracted the interest of other potential partners in this venture (both from public and private sector). Diversification of funding sources as a mean to provide long term financial sustainability has always been an important objective of USAID. We are well under way toward this goal.