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# Municipal Infrastructure Support Programme

●●● Building together for the future

## Program podrške razvoju infrastrukture lokalne samouprave

●●● Gradimo zajedno za budućnost





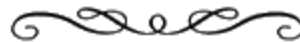
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# Project Programming and Preparation

24<sup>th</sup> March 2011  
EUD, Belgrade



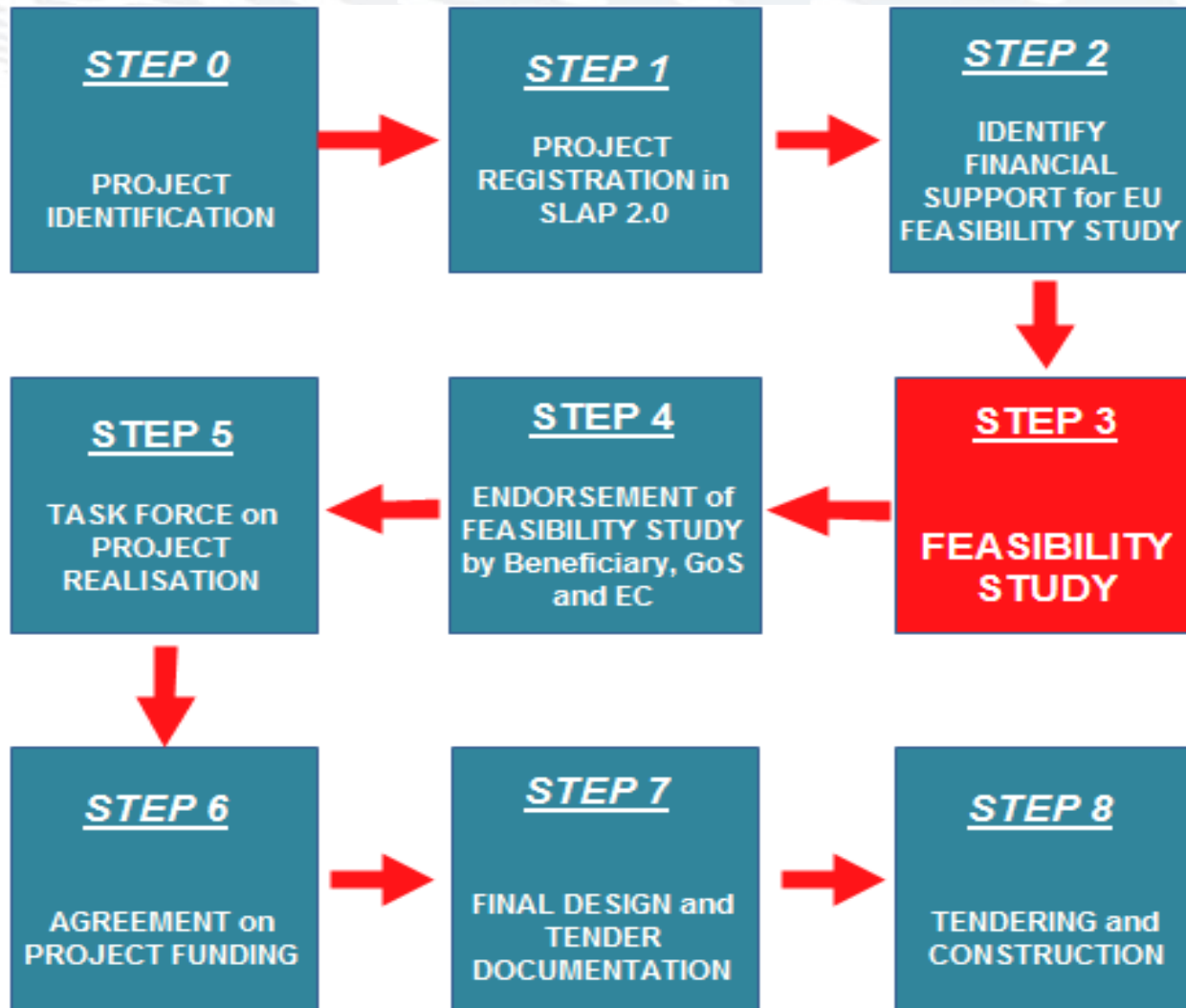
## *PROJECT FEASIBILITY STUDIES*



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# ROLE OF FEASIBILITY STUDIES IN PROJECT DEVELOPMENT



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# FEASIBILITY STUDY..... **WHY ?**

➤ To improve the quality of EC development assistance by establishing following :

- Project ideas are consistent with partner and EC development priorities;
- Relevance
- Feasibility
- Efficiency
- Effectiveness
- Anticipated impact
- Objectives





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# FEASIBILITY STUDIES – **LEGAL CONTEXT**

## Art.114, Serbian Law on planning & construction.

*“The feasibility study particularly determines the spatial, ecological, social, financial, market and economic justification of the investment into the chosen solution, elaborated by the preliminary design, based on which it is decided about the feasibility of the investment.*

*The feasibility study should contain the preliminary design referred to in Article 118 of this Law.”*

**Regulation No 2630 on the contents, scope and manner of the previous studies and feasibility study for construction of facilities, OGRS No 80 of 20<sup>th</sup> September 2005.**



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# FEASIBILITY STUDY..... **SCOPE**

**STAGE 1** – NEEDS ASSESSMENT

**STAGE 2** – IDENTIFICATION OF TECHNICAL OPTIONS

**STAGE 3** – SUSTAINABILITY ISSUES

**STAGE 4** – IMPLEMENTATION PLAN

**STAGE 5** – FUNDING OPTIONS



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# STAGE 1 – NEEDS ASSESSMENT

- ❑ Project **coherence** with Strategic Documents
- ❑ Key **stakeholders** and target groups
- ❑ Clear and structured **problem analysis**
- ❑ Clear and coherent **project objectives** (output)

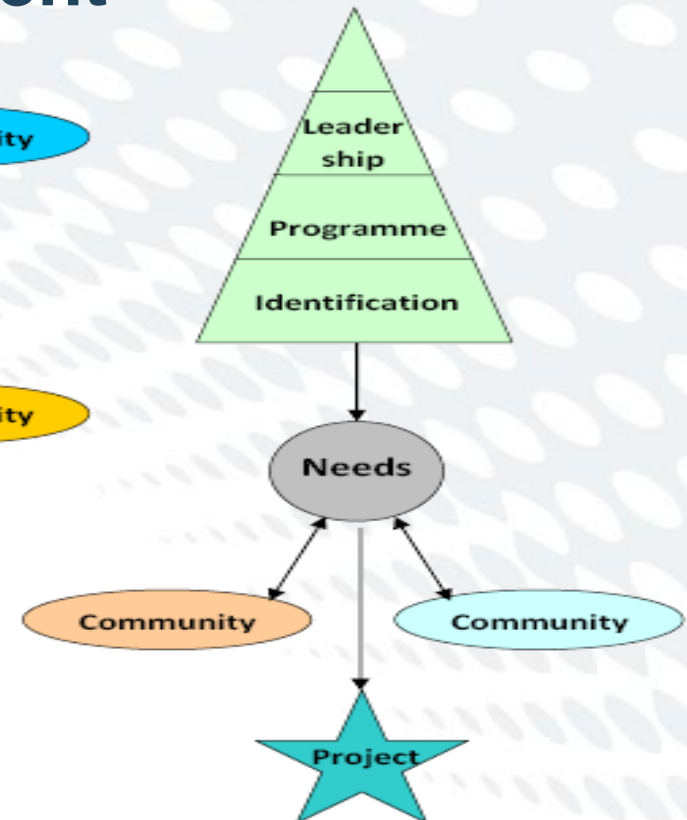
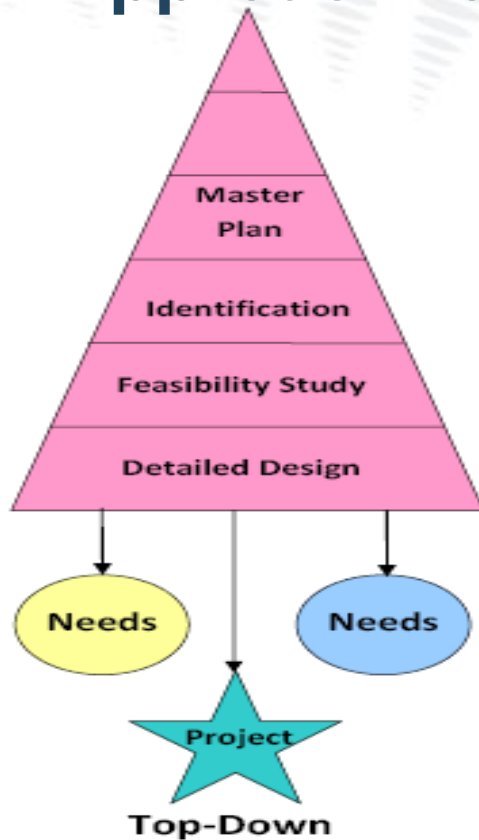


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# Approach to Needs Assessment







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## Top Down Approach - Traditional approach

Advantages:	Disadvantages:
Arrives at rational or optimal solutions	Assumes simplistic social functions
Rapid completion and straight forward	Ignores complexity of human nature
Technical issues rapidly resolved	Condescending and lack of sensitivity
Highly focused to project	Will reflect views and ability of assessor
Cost more, easily controlled	May not be priority of the community



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## Bottom Up Approach

**Impractical approach with long implementation period**

Advantages:	Disadvantages:
Uses actual human end user views	Can be a long process
Opportunity for externalities to influence	Technical issues may not be easily understood by communities
Human dimension introduced	Results may not fit the project intention
Commitment to project more forthcoming	Project direction may be diverted
Provide communication channel with stakeholders	Expectations can be raised but not fulfilled



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## Programme Based Approach

- ☐ People as the top priority for the project
- ☐ Necessity for strong leadership and direction
- ☐ Necessity to obtain national level support
- ☐ Requires improved capacity for programme managers
- ☐ Good governance essential
- ☐ Some disadvantage of bottom up approach
- ☐ Adopted by most IFI (EU, EBRD, EIB, WB, KfW)
- ☐ MISP is a programme based assistance



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## STAGE 2

### – IDENTIFICATION OF TECHNICAL OPTIONS

- ☐ Identify **alternative technical solutions**
- ☐ Assess degree of **compliance with project needs**
- ☐ Establish **costs** (both capital and operational)
- ☐ Initial comparison of **environmental impact**





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## STAGE 3 - SUSTAINABILITY ISSUES

- ☐ **Institutional Sustainability** – capacity of beneficiary organisation
- ☐ Need for complimentary technical assistance ?
- ☐ **Financial Sustainability**
- ☐ Affordability & willingness to pay



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## Institutional Sustainability

- ☐ Efficiency and effectiveness of beneficiary
  - ☐ Inclusion of beneficiary in infrastructure decision
  - ☐ Medium term agreements on funding
  - ☐ Independence of beneficiary
  - ☐ Good Municipal governance
- ~~~~~
- ☐ Institutional changes will be necessary
  - ☐ Clearly defined responsibilities for all parties
  - ☐ Consideration of technical assistance as a Project component



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# Financial Sustainability

- ☐ **Tariff analysis**
- ☐ **Collection rates**
- ☐ **Affordability** and willingness to pay
  - Tariff increases must be affordable and gradual
  - Subsidies will be necessary for some people
  - Quality of service must improve
  - Only services provided even if not used have to be paid for
  - Necessity for population to be kept informed
- ☐ **Cash flow analysis**
- ☐ **Internal Rate of Return (IRR)**



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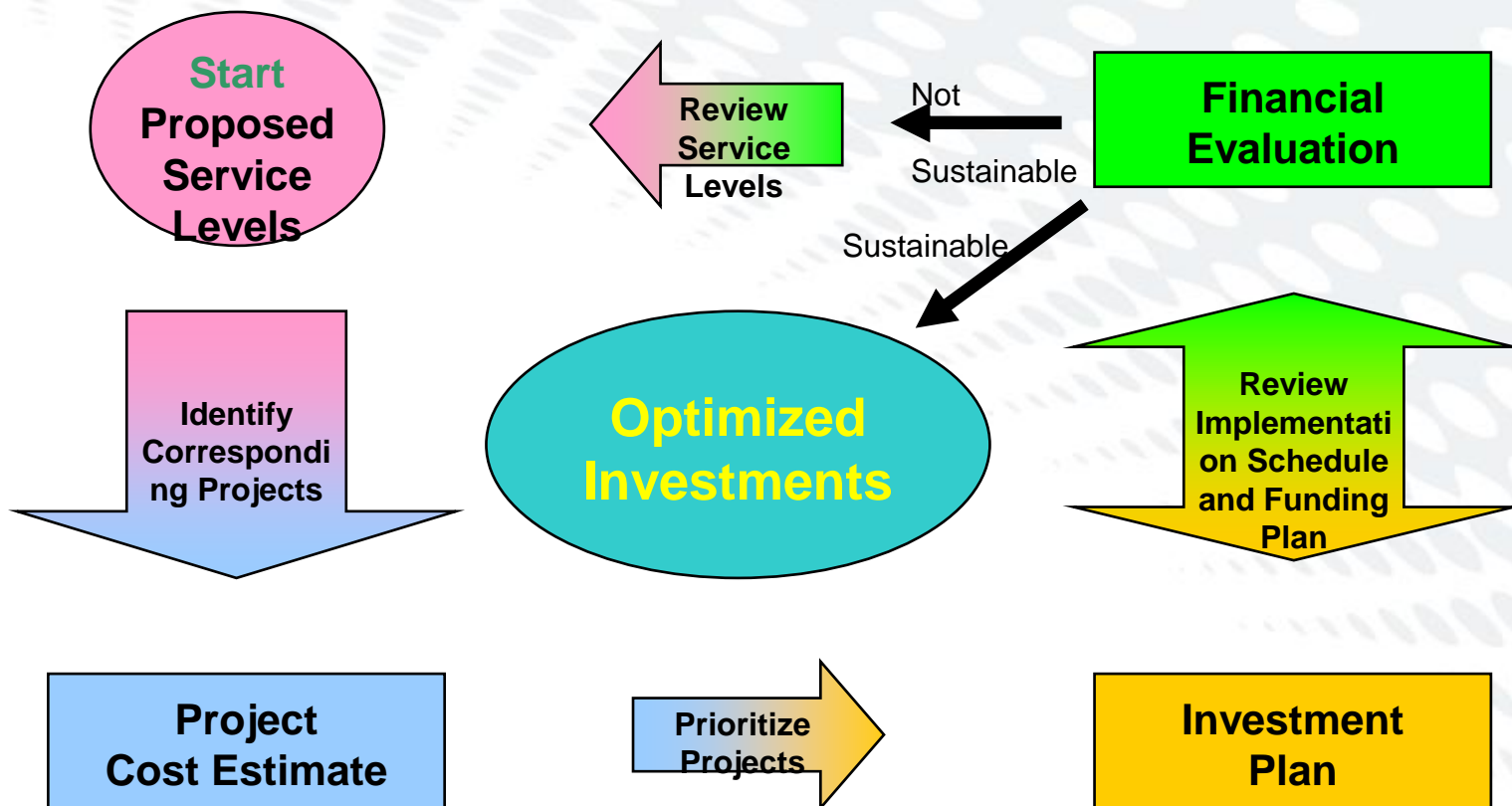
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# Financial Sustainability







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## STAGE 4 – IMPLEMENTATION PLAN

- ❑ **Institutional capacity** issues and degree of local ownership
- ❑ **Lessons learned** from past experience
- ❑ **Strategy options** and preferred implementation strategy
- ❑ indicative **activities** for delivering each project output
- ❑ Performance **monitoring and accountability** system
- ❑ Proposed **management/coordination** arrangements
- ❑ Support to **institutional strengthening** and local ownership
- ❑ Identify risks and develop a **risk management plan**



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## STAGE 5 - FUNDING OPTIONS

Source	Short Term	Long Term
Grants (EU, KfW, others)		
Loans (WB, EIB, EBRD)		
Republic/ Municipality		
Communal utilities		
Community		



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## STAGE 5 - FUNDING OPTIONS

### Key Issues:

Grants (foreign & government) funding are less available,  
borrowings have to increase

Repayment of loans & interest

Previous success / failure of project

More funds will need to come from beneficiary

Tariffs set by beneficiary will have to increase but  
gradually



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# Bankable Project

- ☐ Realistic project (no highly optimistic projection)
- ☐ Supported by a feasibility study (least cost solutions)
- ☐ Project is operational on completion (generates income)
- ☐ Financially sustainable (positive IRR)
- ☐ Economically sustainable (substantial economic benefits)
- ☐ Environmentally sustainable





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## QUESTIONS AND ASSISTANCE

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Thank you for your attention!