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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 PREPARATION

MASTERCLASS

David Lyth, MISP IPA 2010

Belgrade, 29 May 2013



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CONTENT

- **THEORY AND PRACTICE IN PROJECT PREPARATION – FEASIBILITY STUDIES**
- **IMPLEMENTATION ARRANGEMENTS – FEASIBILITY STUDIES AND PROJECT CYCLE**



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

- To improve the quality of EC development assistance by establishing:
 - 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 and 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 20th September 2005



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FEASIBILITY STUDIES - CONTEXT

- Principles and rules set out in the most current EC guidelines and specifically by the guidance document published by the EC, Directorate General Regional Policy (DG Regio) “Guide to Cost-Benefit analysis of investment project under Structural Funds, Cohesion Fund and Instrument for Pre-Accession”, June 2008
- EC DG Regio, “Working Document 4: Guidance on the Methodology for carrying out Cost-Benefit Analysis”
- EC “Regulation 1083/2006 Council Regulation No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund” + corrigendums



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FEASIBILITY STUDY - SCOPE

STAGE 1 – NEEDS ASSESSMENT

STAGE 2 – IDENTIFICATION OF TECHNICAL OPTIONS

STAGE 3 – INSTITUTIONAL ISSUES

STAGE 4 – FINANCIAL AND ECONOMIC ANALYSIS

STAGE 5 – IMPLEMENTATION PLAN



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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)**

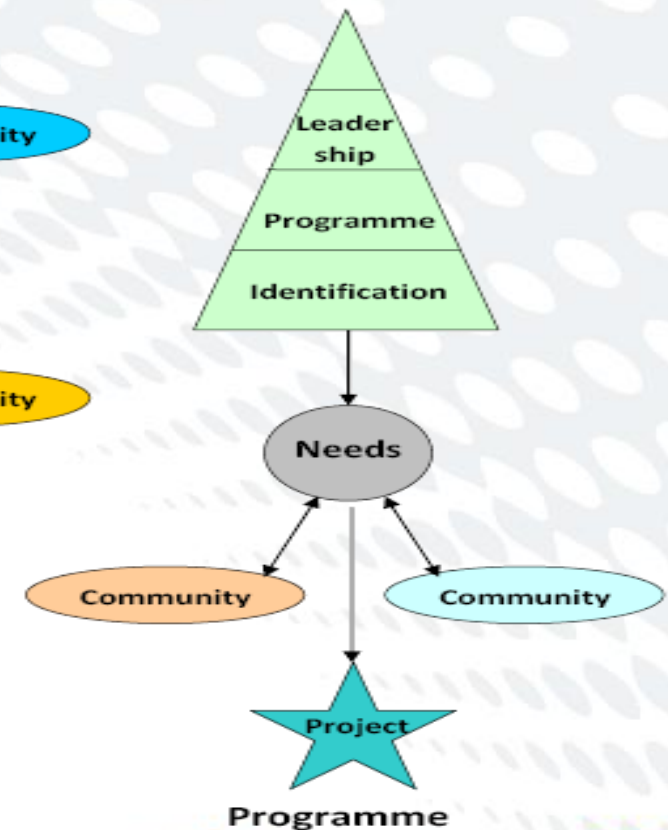
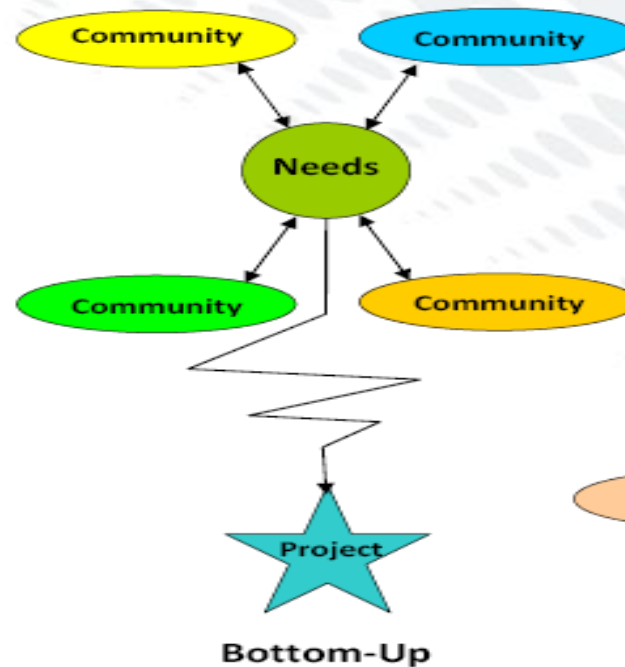
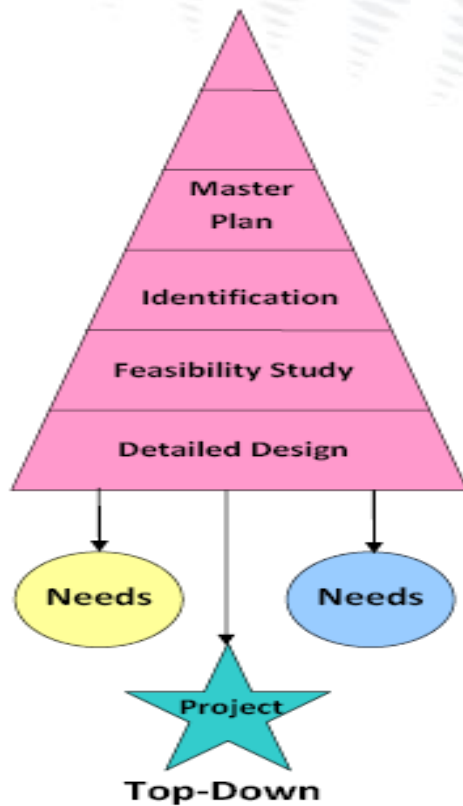


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APPROACH TO NEEDS ASSESSMENT





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NEEDS ASSESSMENT

- 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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NEEDS ASSESSMENT

- **First requirement is a Demand Evaluation showing Need or Demand for the project**
- **Forecast demand derived from current need and demographic predictions and economic growth**
- **Adjusted demand according to changes in behaviour of water consumers/waste producers and according to adjusted policies and legislation**



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NEEDS ASSESSMENT

- **OBJECTIVES** of a project must be clear and measurable (e.g. proper wastewater collection system; sewerage treatment according to new and relevant standards)
- **TARGETS** of a project to be reached after implementation of the project must be visible, measurable and identifiable (e.g. total population targeted; quantity of wastewater treated; number of new households connected, etc.)



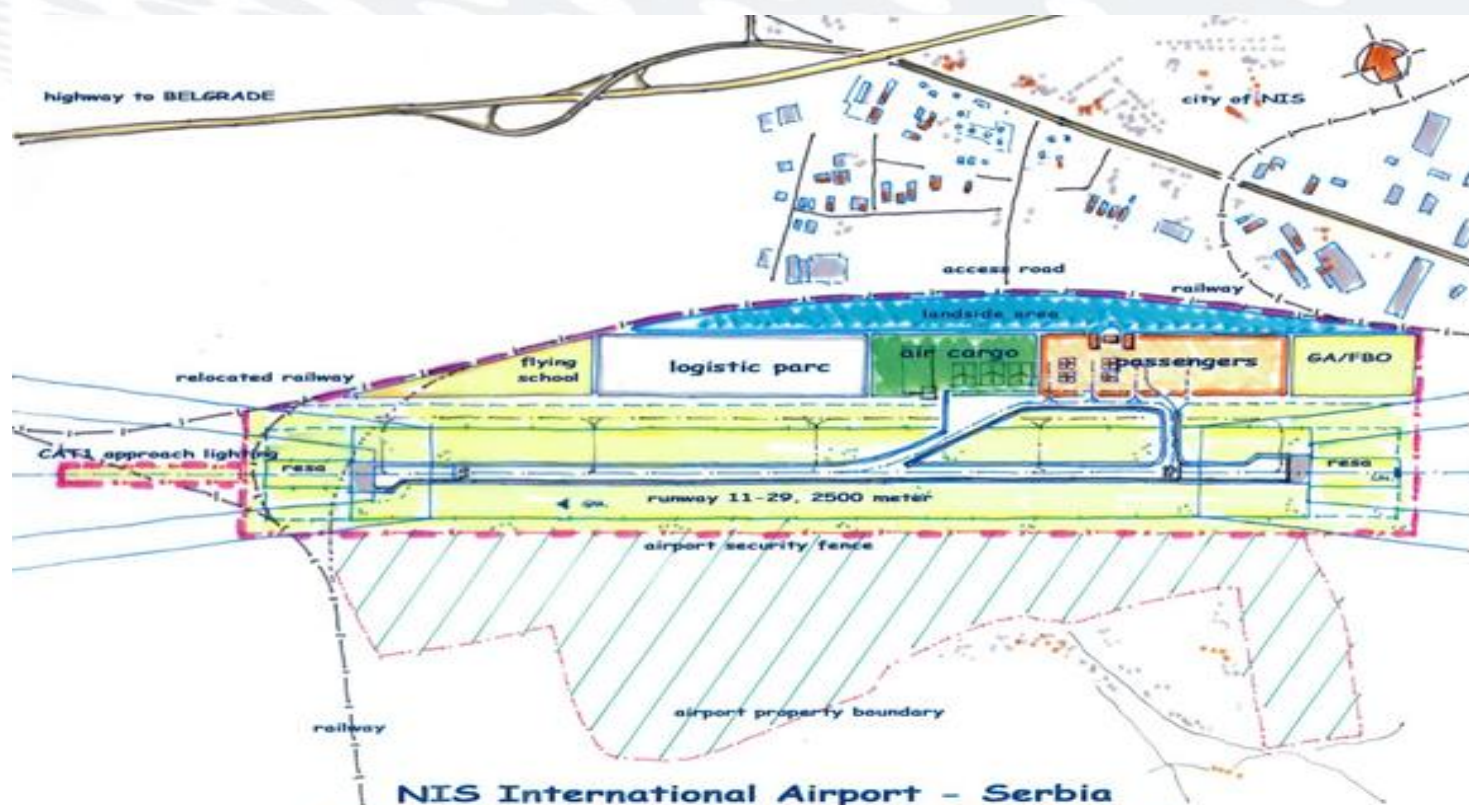
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**NIS International Airport - Serbia
preliminary development plan - first phase**



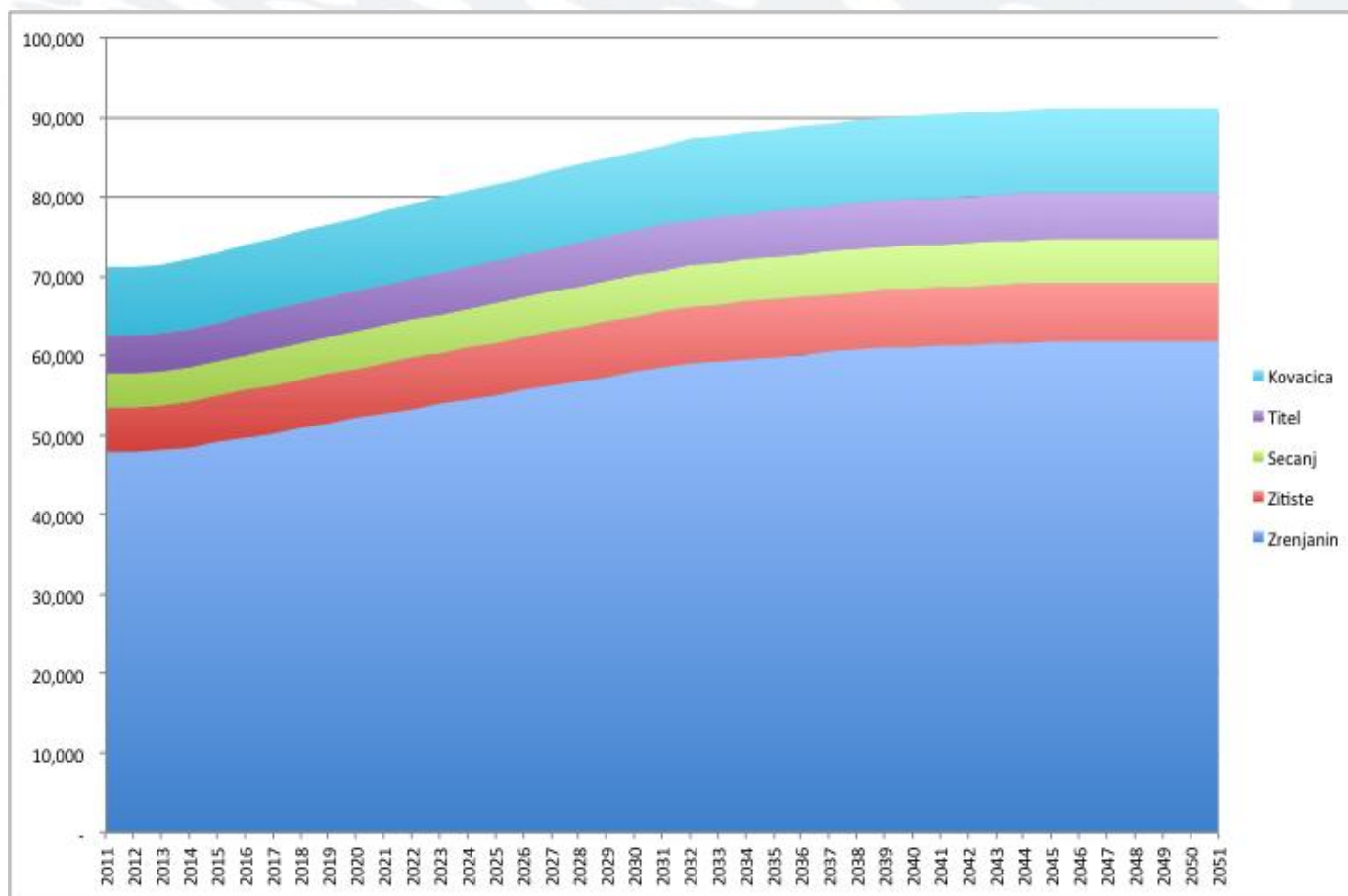
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STAGE 2 – IDENTIFICATION OF TECHNICAL OPTIONS

- 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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OPTIONS ANALYSIS

- **Options Analysis is a compulsory requirement of a FS**
- **Different options should be examined:**
 - **Description of the options**
 - **Assessment of the options**
 - **Evaluation of the options (Multi Criteria Analysis)**
 - **Selection of the optimal option**
 - **Justification of the optimal option**
- **Assessment and comparison should include: technical; environmental; investment costs; economic (e.g. O&M); and organisational factors**



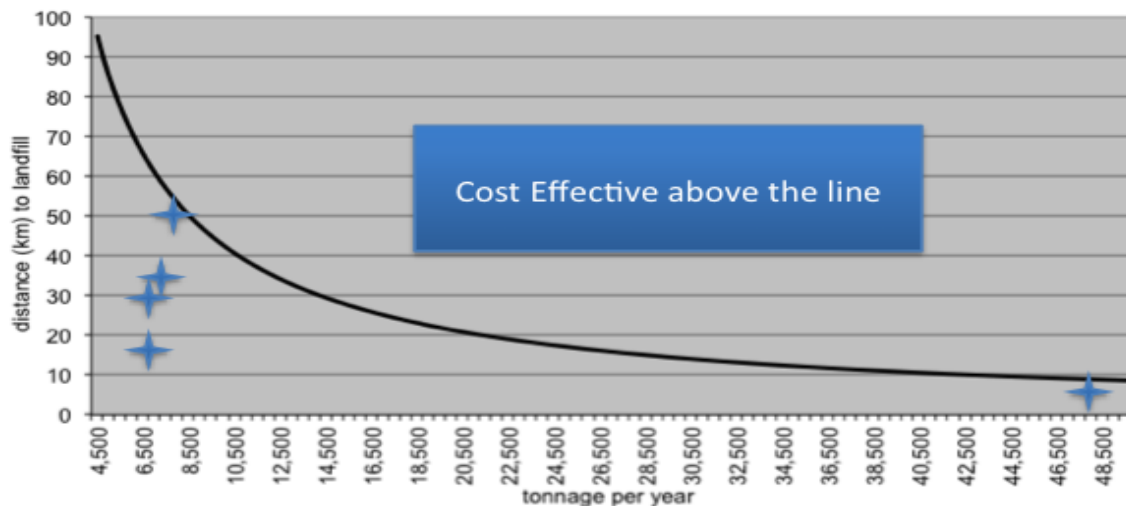
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PRACTICAL EXAMPLES

- Zrenjanin RSWM: Options analysis undertaken for system - Collection (vehicles, containers, transfer stations, recycling systems); Processing, Recycling, Treatment and Disposal
- Options for regional landfill site addressed based on strategic, local and site assessment



Is a Transfer Station
required?



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STAGE 3 – INSTITUTIONAL ISSUES

- **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 4 – FINANCIAL AND ECONOMIC

- Is the project worth financing – does it add value to society? If not, modify or reject. If it does:
- Does it need EU support – would it be financially viable without EU support (financing)? If support is needed, what should be the size of the EU grant?
- CBA required to justify social desirability of the project (economic analysis and risk assessment)
- Demonstrate the need for financial assistance (financial analysis and risk assessment)
 - Establish funding gap rate – the amount of EU grant and “profitability indicators
 - Establish investment financing plan
 - Establish sustainability of the project



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STAGE 4 – FINANCIAL AND ECONOMIC

➤ Financial analysis:

- Financial expenditures (cash outflows) and financial revenues (cash inflows)
- DCF analysis is used to identify the least cost option for achieving the project objectives; to calculate the full cost recovery tariff, financial parameters and EU grant

➤ Economic analysis:

- Resource costs and benefits to society (it values the opportunities foregone and the opportunities realised)
- DCF analysis is used to compare a project's benefits and costs to establish if it adds net value to society)



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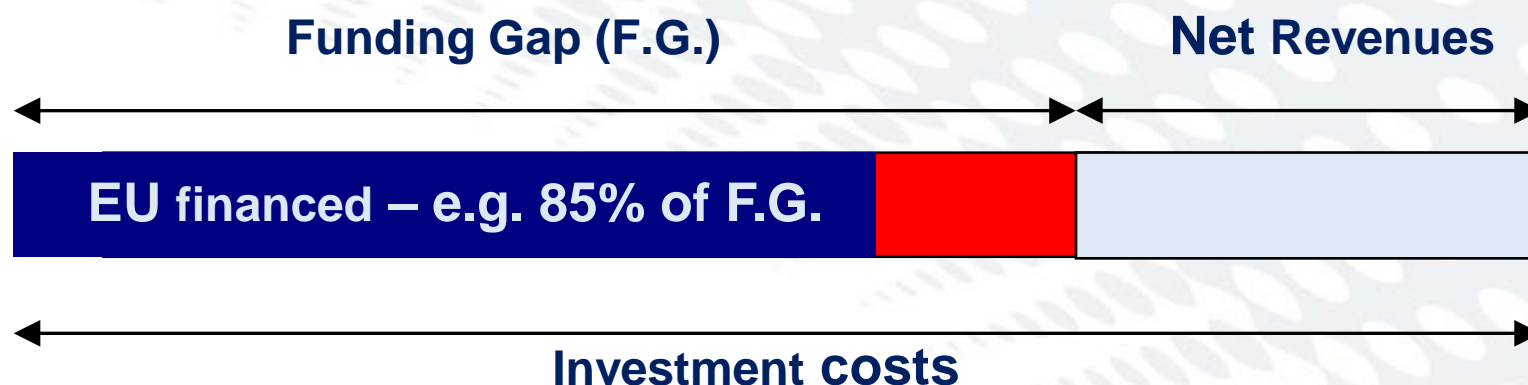
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FUNDING GAP



- Period 2007- 2013: funding gap only EU co-financed up to e.g. 85%
- Rate of support (%) = $[(DIC - DNR) / DIC] \times 0.85$
(for ERDF projects)
- The rate of support is then applied to “eligible costs” to determine the actual level of grant



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FINANCIAL SUSTAINABILITY

- **Tariff analysis**
- **Collection rates**
- **Affordability and willingness to pay**
 - Tariff increases must be affordable and gradual (e.g. Zrenjanin)
 - 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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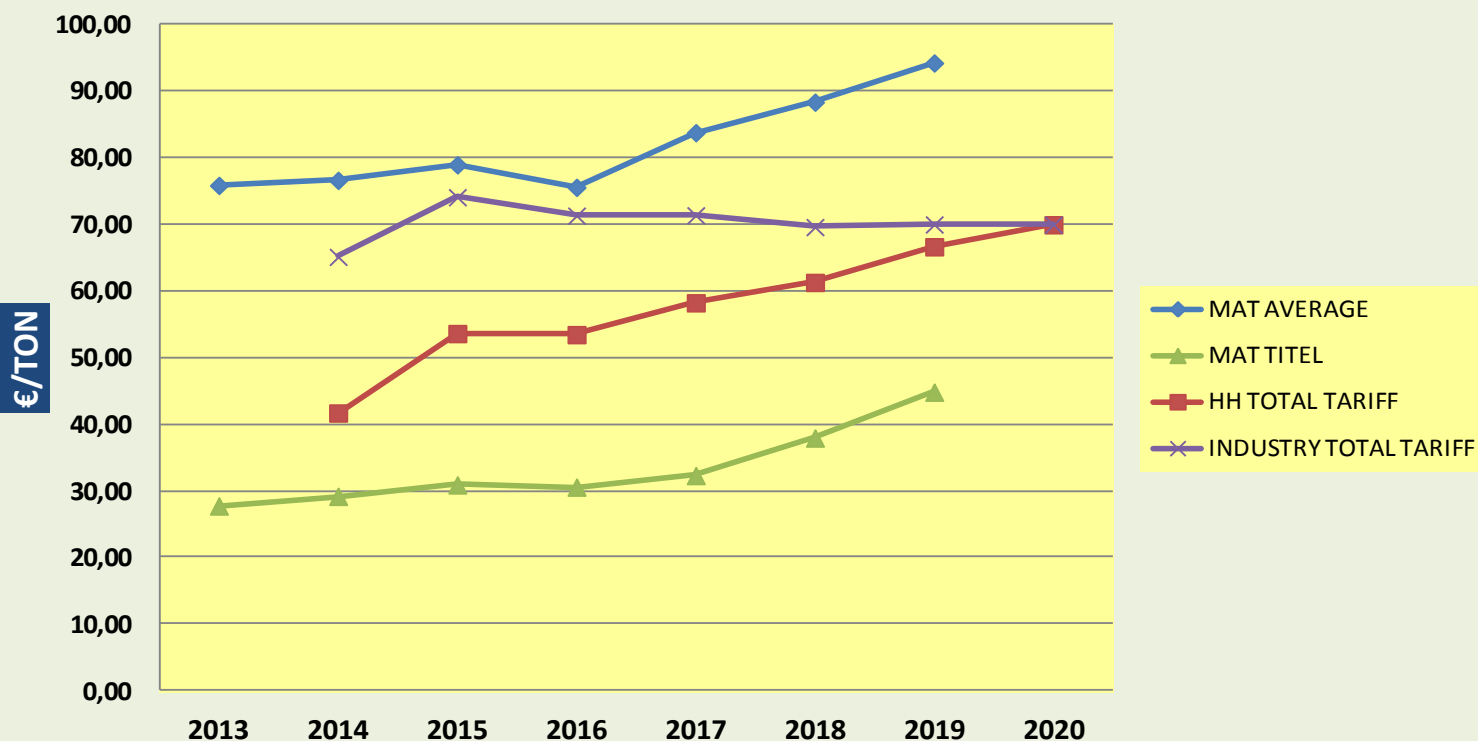
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RECOMMENDED RANGE OF THE MAT





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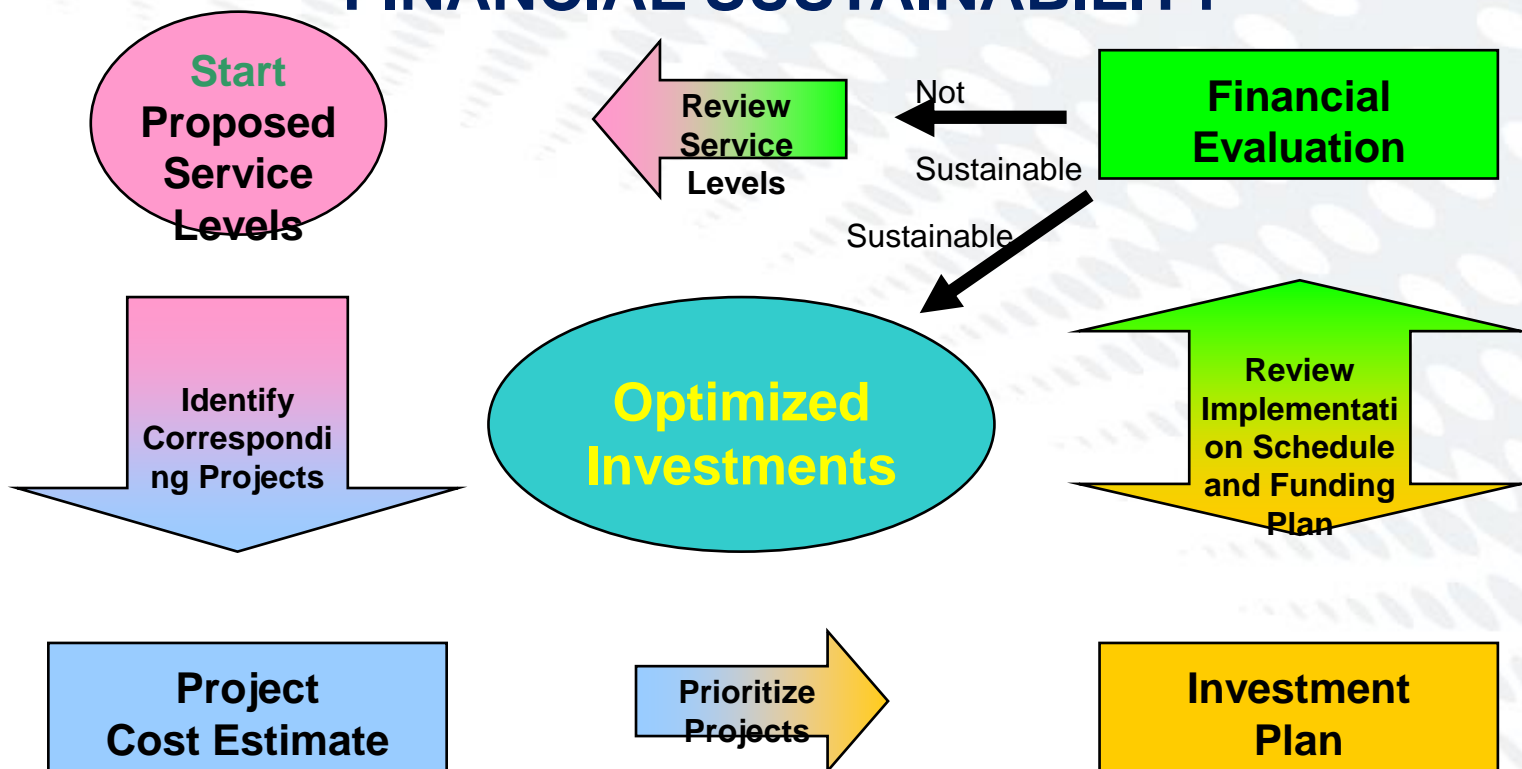
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FINANCIAL SUSTAINABILITY





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EXAMPLE OF FINANCING PLAN

Financing Source	Investment Values (current price, EUR)	Percentage %
EU grant	12,389.047	60.17%
Central / Regional Government grant	0	0%
Loan	3,000,000	14.57%
Local Budget	5,202.357	25.26%
Others	0	0%
Total	20,591,404	100%



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STAGE 5 – IMPLEMENTATION PLAN

- **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 - key risks**
- **Consider technical assistance as a project component**



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IMPLEMENTATION OF FEASIBILITY STUDIES

- **Active Beneficiaries, stakeholders and consultants/designers - Task Forces/ Working Groups**
- **Implementation arrangement for all parties developed and functioning**
- **Key factors being addressed:**
 - land ownership;
 - permissions and permitting;
 - institutional/organisational structures – regional PUC/Joint Company – Inter-Municipal agreements, etc.



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ACTION PLANS

- **Action Plan for implementation of FSs developed. Key stages include:**
 - **Stakeholder analysis and involvement – Beneficiary(s); key stakeholders (local and central) – Working Group**
 - **Managing project activities and flow of information**
 - **Evaluation of Alternatives and Decision of the Beneficiary and Key stakeholder**
 - **Position Papers**
 - **Improve capacities of beneficiaries**



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KEY FACTORS FOR A SUCCESSFUL PROJECT

- Clear and binding Institutional framework established
- Co-financing realistically structured and secured
- Feasibility process agreed and approved
- Project/technical documentation (preliminary design, EIA, detailed design, etc.) agreed and funded
- Permitting and permissions on-going
- Implementation through an effective PIU/Regional PUC
- On-going technical assistance



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QUESTIONS AND ASSISTANCE

David Lyth

Programming and Project Preparation, MISP IPA 2010

+381 63 4520 79

dlyth@misp-serbia.rs

www.misp-serbia.rs

Thank you for your attention!