INSTRUCTION

No. 22, dated 15.9.2025

ON DETERMINING THE METHODOLOGY FOR PREPARING THE STUDY OF FULL FEASIBILITY AND SIMPLIFIED FEASIBILITY STUDY

In support of Article 102 of the Constitution of the Republic of Albania, in accordance with Article 25 of Law No. 9936, dated 26.6.2008, “On the management of the budgetary system in the Republic of Albania”, as amended, point 8, letter “f”, of the decision of the Council of Ministers No. 887, dated 27.12.2022, “On the procedures for the management of public investments”, as amended,

I INSTRUCT:

1. Any proposal for a public investment project, which has a total value above the limit determined by instruction of the Minister of Finance, to be included in the Single List of Projects of National Importance, must be accompanied by a full feasibility study, which is prepared according to Annex No. 1 attached to this instruction.

2. Any proposal for a public investment project, which has full value within the financial limits determined by instruction of the Minister of Finance, must be accompanied by a simplified feasibility study, which is prepared according to Annex No. 2 attached to this instruction, prior to the budgeting process.

3. The quality of the design and content of the Full Feasibility Study and Simplified Feasibility Study document of the project is the ultimate responsibility of the project proponents.

4. Content of feasibility study documents and method of preparing this information is carried out according to the methodology in the annexes attached to this instruction.

5. Based on the nature of the project, the proposing institution, by arguing, may assess whether one or more sections of the methodology in annexes 1 and 2 attached are inapplicable.

6. Based on specific project requirements, or the requirements of international donors and funders, proposing institutions may include additional sections in the Feasibility Studies to address specific aspects required.

7. The Full Feasibility Study Document, as well as the Simplified Feasibility Study document, are prepared by the proposing institution with internal resources or through contracting licensed private entities or specialized public and/or academic entities.

8. The Full Feasibility Study Document, as well as the Simplified Feasibility Study Document, must be submitted for evaluation in Albanian, drafted in accordance with the linguistic and technical norms of the Republic of Albania.

This instruction enters into force upon publication in the Official Gazette.

MINISTER OF FINANCE

Petrit Malaj

ANNEX 1
FULL FEASIBILITY STUDY

TABLE OF CONTENTS

project duration

Introduction These guidelines for the preparation of a full feasibility study provide detailed advice to central government units on the expectations and requirements regarding the content and quality of feasibility studies. These studies are prepared for the purpose of evaluating investment projects within the framework of the Public Investment Management process in Albania. Central Government Units, responsible for the proposal and implementation of the project, bear full responsibility for carrying out detailed and accurate assessments of the projects they propose.

The entity responsible for the project is responsible for preparing the feasibility study, referring to the preliminary design work and supporting studies, such as environmental, social impact studies or other specific studies, according to the nature of the project. This work can be carried out by the internal staff of the proposing institution, or by contracting private consulting firms, independent experts or specialized academic and research institutions.

The following guidelines set out the minimum content and requirements for a full feasibility study in Albania, reflecting international best practices. The document is largely based on the European Commission's Guidelines for Cost-Benefit Analysis of Investment Projects, 2014, and includes detailed guidance for various sectors, including transport, environment, energy, broadband, etc. Furthermore, the content of this guideline has also been aligned with the World Bank's Public Investment Reference Guide, 2020, to ensure a comprehensive and standardized approach.

The structure of the feasibility study does not imply a strict order of work or a linear process. Rather, the study implementation involves phases of feedback, verification, and iteration between different elements, where results and conclusions are gradually improved. The final feasibility study is the product of these interactions and not just a simple sequence of analyses.

This document aims to provide a clear and practical guide for the preparation of comprehensive feasibility studies, which are essential for an accurate and reliable assessment of public investment projects in Albania.

1. Executive Summary The executive summary of the feasibility study is provided to allow decision makers easy access to relevant data. It is essential that this chapter is completed once all other sections have been finalized.

The content of this chapter should consist of the most important information regarding the project, the subject of the project and the general scope of the activities and includes at least the following:

- Project title;
- Project sector;
- Location of the project;
- Statement of the problem/opportunity that the Project will solve/address;
- Project objectives;
- Description of an area affected by the project and the results of the demand analysis;
- Description of the project scope and investment cost;

- Project implementation plan; -
Summary and results of financial and economic analyses; - Presentation of
implementation measures; - Project
sustainability; - Recommendations.

2. Analysis of the existing context 2.1
Review of the social and economic context The first step

of the project appraisal aims to understand the social, economic and institutional context in which the project will be implemented. Indeed, the possibility of achieving reliable projections of benefits and costs often relies on the accuracy in assessing the macroeconomic and social conditions in the area of influence of the project. Depending on the project, the boundaries of the relevant context of this analysis, e.g. local, national or international, should be identified on a case-by-case basis. An in-depth analysis of the social and economic context is also useful for carrying out the demand analysis.

This chapter of the feasibility study will provide general information on the relevant region in which the project will be implemented ***(territorial and environmental aspects, basic demographic, economic, financial, social data, etc.).*** This information should be relevant to the investment object.

2.2 Government policy and strategy/sector/sub-sector master plan A description of a

project is required, in the context of its compatibility with relevant government policies or strategies. Such a description should demonstrate that the project is being pursued in the interest of meeting the economic or social development needs of the country, or of a local area. It should elaborate on how the project contributes to the achievement of one or more of the country's and the sector's development objectives.

2.3 Roles and responsibilities in the sector/sub-sector A

description of the project should be provided within the framework of the organizational arrangements in the relevant sector. The information should present the current situation of a relevant sector in Albania, as well as all information related to the system in which the project will operate. This chapter should mainly answer the following questions:

-What is the current situation of the sector (presentation and analysis of recent trends, general information of the sector) in which the project will operate?
- What is the situation, as well as the organizational structure of the system, in which the project will operate?
2.4 Institutional Capacity Analysis Institutional

capacity refers to all institutional arrangements necessary for the implementation and operation of the project [e.g., establishment of a Project Implementation Unit (PIU)], including legal and contractual matters.

This section should provide a presentation of possible institutional and
The most effective option is indicated, with justification.

Where the owner of the infrastructure and its operator are different, a description of the owner and the operating company or agency that will manage the infrastructure (if known) must be provided.
This should include the legal status of the operating entity, the criteria used for its selection, and the contractual arrangements envisaged between the partners, including financing mechanisms (e.g., collection of service fees/charges, presence of government subsidies).

3. Project needs and objectives 3.1 Needs

analysis and identification of target users A description of the conditions
that create the need to implement the project is required, i.e., the project rationale.

The feasibility study should clearly explain why the project is needed, identifying the problems (or opportunities) that the project will address. The identified problems should be described in relation to the project beneficiaries and, if applicable, supported by relevant data. The content of this section should clearly identify and differentiate the intended users (beneficiaries), by type (e.g., drivers, school children, families, etc.).

3.2 Project objectives with indicators The

starting point for conducting analyses regarding the legitimacy of the implementation of investment activities and their economic sustainability is the definition of project objectives. Project objectives should be determined on the basis of an analysis of the needs of the social and economic environment in relation to the scale of the project.

Objectives should be SMART – meaning specific, measurable, achievable, realistic and time-bound. This is to enable monitoring of the project over its duration, to assess whether and to what extent it is achieving its objectives, and later to enable evaluation of the project to see to what extent the project has been successful or not.

The measurable objectives of the Project should be reflected in *outputs* and result indicators.

Output indicators describe the distribution of products, e.g., kilometers of roads constructed, capacity of storage tanks (m3) created, number of schools renovated, etc. Achieving project outcomes does not guarantee that the project will be successful, but without achieving outcomes the chances for success may be slim.

Outcome indicators are expressed in terms of achieving sustainable benefits for project beneficiaries, e.g., more students entering university or using knowledge, as well as reduced child morbidity from certain diseases.

This chapter is also expected to provide a description of the project's impact, which should be understood as the overall objective to which the project will contribute, such as increasing incomes, improving living standards, improving attractiveness for tourism, and protecting natural resources.

4. Demand Analysis

Demand analysis identifies and quantifies the social need for the planned investment.
Rigorous demand analysis is at the heart of a good project appraisal and is essential for: - Designing appropriately

sized capital assets with the necessary capacity for current and future users; - Preparing reliable cost calculations; - Accurately assessing the project's

benefits; and - Reaching a strong conclusion on the

project's economic viability.

Developing a quantitative forecast of the expected demand for the specified project services, including the expected growth of this demand over the life of the project, is essential during project appraisal. Depending on the nature of the project, these forecasts may cover elements such as: school enrollment, hospital load, road traffic, water consumption, and solid waste generation.

Demand is influenced by a number of factors which, depending on their importance, may need to be taken into account when making forecasts. These include: - Information

on economic growth; - Income changes

among potential target users; - Demographic change – the natural increase

or decrease of the population and of different groups within it.
migration within or outside the project area;

- New industrial, business or agricultural developments in the project area;

- The cost of the services provided (even if they are free, there may be costs involved in accessing the services);
- Long-term technological change and changes in public preferences.

The level of detail in demand forecasts may vary depending on the scale of the project and the extent to which it is innovative. For major or highly innovative projects, the demand analysis is expected to be very detailed, involving the collection of primary data through surveys and the use of econometric analysis and, where applicable, modelling techniques. For straightforward and lower-value projects, the approach may be simpler, based on intelligent trend analysis. However, simply extrapolating current trends is clearly not acceptable. Trends should be critically examined to ensure that there will be no significant changes in the underlying factors over the duration of the project. Whatever approach is used to prepare the demand, it is important to present historical evidence of previous trends, where this exists, to put the forecast in context.

Due to changes in the underlying drivers of demand, more accurate forecasts will be obtained by projecting demand for different user groups separately (and then combining them), rather than developing general forecasts, e.g., changes in demand growth for business and leisure travel or for water, by user type (industrial, business, institutional or residential).

5. Options Analysis

Why do we need options analysis?

The purpose of the options analysis is to compare and evaluate possible non-investment or investment solutions1 . The purpose of the options analysis is to determine which of these solutions is the most beneficial and should be chosen for the implementation of the project. The options analysis is one of the most difficult analyses, but at the same time one of the most important analyses in the preparation of the project.

During project preparation, as more information is gathered about the needs, the project environment, and possible solutions, the list of options may change. There may have been some options that were rejected for some reason in the previous stages. These should be mentioned in the feasibility study and the relevant reasons why their further analysis was abandoned should be given.
This will show that the contractor/project promoter has considered a number of alternative solutions and has not left out any important solutions.

Ultimately, options that are feasible and lead to the solution of the problem identified in Chapter 3, “Project Needs and Objectives,” should be compared. If there are many possible options, especially in larger projects, a preliminary feasibility study should be considered in order to limit the number of solutions to be considered in the final phase.

When defining alternative solutions, it is essential to also refer to a “business as usual” option (option 0), against which the project and the shortlisted options will be compared. However, this option 0 cannot be considered an option, as it does not lead to the solution of the problem that has been identified. It should be borne in mind that options that lead to similar results, in terms of responding to an identified need and solving the main problem, are compared.

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[1] Options analysis aims to identify the preferred solution. It answers a first-order question. Once the preferred solution is identified, further analysis of technical alternatives may be required. For example, in a road project, the choice of a new corridor or road versus a different investment or no-investment solution would be considered in the options analysis. Changes in the vertical and horizontal extent of the preferred solution would be considered as technical alternatives. The choice of the technical alternative is a second-order question.

Methods for comparing options

Basically, there are three most common methods of comparing options: - Multi-criteria analysis (MCA)

- Cost-effectiveness analysis (CEA)
- Cost-benefit analysis (CBA).

MCA is the easiest to use, where a system of criteria and importance is used to evaluate individual options, assigning them points. The CEA method compares the costs over the entire duration of the project with the results achieved (e.g. how much does it cost on average to treat 1 m3 of municipal wastewater over 30 years) and selects the most cost-effective option. The most complex and demanding method is the full CBA, where costs and benefits are assessed for individual options and economic efficiency indicators are calculated. It may be the case that more than one method is used in a given case.

More information on MCA and CEA is provided in the EC guidelines *(Annex IX, "Other assessment tools").* CBA is described extensively in the EC guidelines.

What options can be considered?

It is anticipated that various investment (and non-investment) options may be considered in analysis, depending on the project characteristics:

- Analysis of possible project location options, with the aim of determining the best location for the project2 . This will be important, for example, in the case of solid waste facilities, wastewater treatment plants, sports facilities, new major roads (so-called "corridor study"). The comparison of different location options should take into account the risks posed by climate change and some other issues relevant to the project, such as land ownership and access to the site or spatial planning issues.

- Strategic approach on how to address the problem e.g. renovation of existing public facilities instead of building new ones.
- Using different technological approaches or different technologies. This can change the balance between capital and recurrent expenditures, such as by choosing between providing more or less capital-intensive services.
- Improving the implementation of existing measures or initiatives instead of investing (e.g. building a new road is not the only way to reduce travel costs and improve safety. There are other ways to achieve these results, such as improving traffic management, charging for congestion and installing speed cameras. Some of these options will not require capital investment).

- Changing the timing, phasing and scale of capital investment (e.g. by initially building a smaller facility and expanding it when demand reaches higher levels).
- Different institutional solutions. Project options may include measures other than spending on new public sector capital assets and direct public provision of services, such as improving regulatory control or subsidies to private sector service providers.

The chapter on options analysis does not suggest any order for this work. Options analysis is an iterative process and is not a separate, isolated stage in the preparation of the feasibility study. It is useful to narrow down the options as early as possible, but this should not prevent moving on to choices if new information or analysis has a

[2] In most cases the location should be determined at an earlier stage (strategic planning/master planning). The FS should then only explain the reasons for the decision that has already been made.

impact. The chapter on options analysis should include the entire process of determining the preferred option.

Presentation of

results The feasibility study should present the logic and criteria used for each phase of the analysis. The options analysis should contain a synthesised description of the analysis of solutions, for at least two alternatives (options) for each dimension/phase of the analysis presented above, assessed against clearly defined criteria, including climate change criteria. The options analysis should not be considered as a separate activity, but as part of the broader analysis carried out within the economic analysis. Regardless of the method used, the rationale and a summary should be described in this chapter.

As a result of the options analysis, the preferred option should be presented and fully justified. The appropriate description should show how climate change mitigation and adaptation issues (indicating the change scenario and the type of events analyzed) have been taken into account in the options analysis, provided that the climate risk assessment has identified such a need.

6. Technical Studies 6.1

Field Surveys Site-specific

issues should be given considerable focus and described in the feasibility study. The feasibility study requires more detailed field studies.

It would be difficult to present technical feasibility or reliable cost estimates without conducting field investigations or trials. Conducting geotechnical surveys, for example, is often necessary to obtain information on the physical characteristics of the ground, which can significantly affect construction cost estimates. Similarly, access rights to construction sites are a common reason for project delays and should be analyzed. This subject should be part of the technical evaluation, along with an explanation of how any problems will be overcome or there should be wording stating that there are no problems with access to the site. Bringing electricity, gas, water, sewage and communications services to the site or even new service roads are common challenges in many projects. Again, the technical evaluation should analyze the availability and means by which all required services can be brought to the project site.

6.2 Review of spatial planning issues A specific

description, supported by maps and other applicable documents, relevant to the project location, must be presented, taking into account the following documents3 : - National Master Plan of the

Territory (MPPT); - National sectoral plans, covering

the whole territory or part thereof; - Detailed plan of areas of national

importance; - Regional development plans; -

Local Master Plan of the

Territory (MPVT); - Detailed local plan (DPV); -

Any other relevant document.

The description should justify that the project and the surrounding area are in line with the assumptions and requirements of all relevant spatial development plans. If the relevant spatial documents include climate-informed zoning, this will also mean reducing the risks of climate change in relation to the project location.

[3] According to Article 15 of Law No. 107/2014, “On territorial planning and development”.

6.3 Land Acquisition

The ownership structure for all plots of land required for the successful implementation of the project should be presented. It should also be indicated whether the project authority has a basis for purchasing all the land required.

Where expropriation is required, early consideration of the issues that need to be resolved for project implementation is essential for the timely implementation of the project. There will be legal, financial and administrative implications, as well as consultations and negotiations with stakeholders. The analyses and consultations already carried out should be described in this section, followed by a clear plan for the next steps. Compensation and resettlement costs should be included in the financial analysis.

6.4 Preliminary Technical

Design Each project proposal should contain a description of its technical aspects. All projects have a degree of technical contribution; sometimes significant and sometimes modest. Based on the technical studies and analysis of options described above, the selected technical design should be presented and justified. All major aspects and components of the technical design should be described here, while more detailed information should be provided in the attached technical documents.

7. Final Project Scope The project scope,

its component parts and proposed activities, should be broad enough to capture all the costs necessary to deliver the project results and achieve the intended objectives. In addition to the central technical solution, the project scope usually includes at least one of the following elements:

- Purchase of
equipment; - Provision of staff
training; - Development of IT
system; - Supervision of construction (if planned to be procured from outside); -
Social awareness campaign.

This list is not exhaustive and the project may include other elements. The principle is that the scope of the project should extend to all elements necessary to provide sustainable benefits.

8. Project financial costs and project implementation plan This chapter

aims to provide a cost estimate for each of the defined project components.
in the previous chapter and the project implementation plan.

8.1 Estimating the financial costs of the project The

project scope may include various cost categories, including capital costs
of all fixed assets and non-fixed assets. Examples of typical capital costs:

- Development costs, including staff and consultancy costs and other professional fees;
- Purchases of land and buildings;
- Fees for licenses and permits related to the project;
- Site preparation costs;
- Relevant infrastructure works (site access road, utility connections);
- Construction;
- Social and environmental mitigation costs;
- Purchases of equipment, vehicles, hardware and software related to the project;
- Installation, implementation and commissioning costs;
- Supervision costs;
- Contingencies;

Costs should be calculated for all categories of the project budget. In the feasibility study phase, feasibility, cost estimates should usually be prepared by engineers/technical experts on the basis of a preliminary project of the relevant infrastructure resulting in a preliminary invoice of quantities. Establishing the cost of these quantities should be based on market analysis.

8.2 Project implementation plan

The material and financial plan should reflect the planned implementation of the project and the costs involved. related to the implementation of this project. It must be consistent with the activities described in chapter "Project Object".

9. Financial analysis4

9.1 Methods and assumptions

The scope of the financial analysis presented in these guidelines may be expanded if necessary. necessary, taking into account the nature and/or legal and financial structure of the project.

This chapter should present, describe and justify the methods and all assumptions. applied for the purpose of conducting financial analysis, including assumptions for scenarios macroeconomic and the selected reference period for the analysis, as follows:

- Macroeconomic scenarios;

- It is recommended to prepare an analysis in real terms, but macroeconomic trends are important in the event of changes in relative prices, e.g., a faster increase in the prices of energy prices than inflation. Also, changes in exchange rates can have an impact on prices The future value of the inputs and the assumptions used should be explained.

- Reference period (time frame)

SECTOR	Years
Railways	30
Roads	25-30
Ports and airport	25
Urban transport	25-30
Water supply and sewerage	30
Waste management	25-30
POWER	15-25
Wide band	15-20
Business infrastructure	10-15
Other sectors	10-15

Source: "Guide to cost-benefit analysis of investment projects: Economic evaluation tool for cohesion policy, 2014–2020", DG Regional and Urban Policy, European Commission, 2014

All other relevant assumptions must be specified.

9.2 Estimates of financial investment costs, operating costs and revenues during project duration [5].

Estimates of the project's total investment costs, as well as operating costs and annual revenues (if applicable) along with the basis of their assessment should be presented here.

The total investment cost of a project consists of:

- initial investment costs (the project budget value must be in accordance with the chapter which represents the project cost estimate);

[4] The financial-economic model used constitutes a mandatory annex to the feasibility study.

[5] This section discusses the financial costs of the project. Economic costs may vary and require adjustments. of financial costs, as will be defined in chapter 10.

- replacement costs, which relate to costs incurred during the time frame of a project for the replacement of machinery and/or equipment, which will need to be included in the costs during the operational phase.

Operating costs include all costs associated with the operation and maintenance of the new or improved service resulting from the project. Examples of typical operating costs:

- Labor costs (wages and social security); - Utility costs; - Fuel;
- Materials; - Security costs;
- Maintenance costs (maintenance or minor repairs of assets); - Office services (e.g. *online services,* data processing); - Rent and leasing expenses (rent of buildings/offices, rental of machinery); - Cleaning.

Project revenues include cash inflows for goods or services provided by the project, e.g.: - Direct charges for the use of infrastructure (highway tolls); - Sale or lease of land or buildings (leasing of offices or classrooms); The value of these revenues will be determined in the forecast by their prices and by the estimated quantities of goods or services provided during the years of operation[6] .

The remaining value should be included as income in the last year of the analysis.

9.3 Project Financing This chapter should provide an explanation of the sources of financing that will be used to cover the investment costs (e.g. state budget – grants, subsidies, capital support at various government levels; private contribution under PPP – and loans).

9.4 Budget Affordability A budget analysis should be included to determine the net impact that a project will have on the public budget during the implementation and operation phases of a project and to help determine whether such an investment is fiscally affordable. A full budget impact analysis takes into account all direct and indirect financial flows that have an impact on public finances, not just those affecting the project's operating unit.

9.5 Financial analysis of cash flow Financial analysis (as well as economic analysis) should be performed based on a differential financial model, prepared for a project, that compares the cash flows for the entity in the "with project" scenario and those in the "without project" scenario.

The main ways of presenting the results of the financial analysis of cash flows are: - Financial net present value of the project; - Financial internal rate of return; It should be emphasized here that the assessment of the financial profitability of public projects is not a decisive element in their implementation or abandonment. Therefore, it is acceptable to make a decision to implement the project even if the financial profitability indicators are negative. The final confirmation of the legality of the project should be reflected in the economic analysis.

[6] It should be noted that many public projects will not generate revenue. In these cases, the financial analysis is less important, but can still provide important information. It will determine the financial values of the costs that are then used in the economic analysis (adjusted as necessary). The analysis will also indicate what financial support the project needs from public funds to make it financially sustainable. This aspect is also related to the issue of the budgetary impact of the project.

Another important aspect of the financial analysis is financial sustainability. A project is financially sustainable when the risk of running out of cash in the future, both during the investment phase and during the operational phase, is expected to be zero. This means that the analysis should show how any financial shortfall, if any, will be covered, so that in the “with project” scenario. The investor/operating entity has a positive cash balance at the end of each year7 .

10. Economic analysis 10.1

Methods and assumptions This

chapter should present, describe and justify the methods and assumptions applied.

for the purpose of conducting economic analyses.

The economic cost-benefit analysis is prepared from the financial analysis of cash flows (bearing in mind that for many public sector projects there will be no financial inflows in the form of revenues). The main purpose of an economic analysis is to examine the justification for an investment from the perspective of society as a whole8 and to determine whether the economic resources required for a project are well used, that is, whether the benefits of a project exceed the costs of the resources used in the process. The economic analysis includes corrections for significant market distortions and the assessment of costs and benefits for which market prices do not exist. There are many sources of market distortions, including: - inefficient markets, where the public sector and/or

operators exercise their own taxes (e.g. subsidies for the production of energy from renewable sources, prices including a mark-up above marginal cost in the case of a monopoly, etc.); - administered tariffs for municipal services may fail to reflect the

opportunity cost of inputs, due to affordability and equity reasons; - some prices include fiscal requirements (e.g. import duties, excise duties, VAT and other indirect

taxes, income tax on wages, etc.); - for some effects there is no market (and prices) (e.g. reduction of air pollution, saving of time).

The methodology for moving from a financial to an economic analysis has the following main steps: **-**

Fiscal adjustments. Often, in financial monetary flows there are items that are only transfers within the national economy and do not represent economic costs, i.e. the use of resources. Subsidies and indirect taxes, e.g. VAT, represent such a transfer and should be excluded from the economic analysis9

.

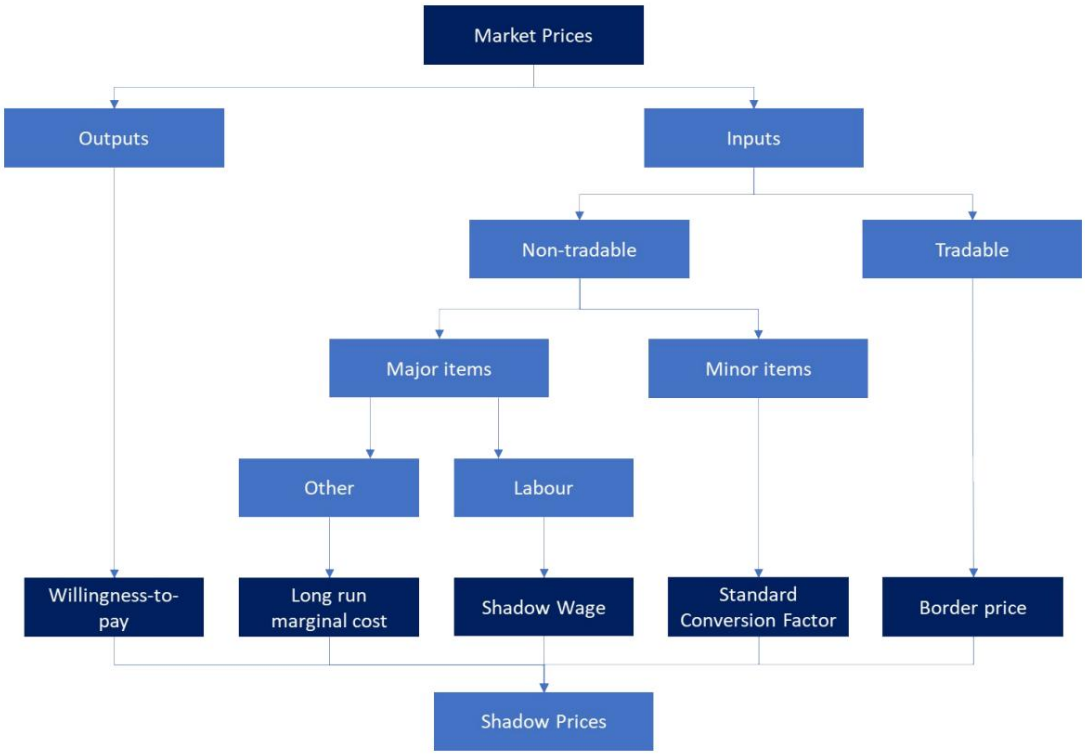
- Converting market prices to economic/shadow prices. This may be necessary when market prices do not reflect the opportunity cost of inputs and outputs. Outputs are often provided for free (or at a minimal fee) so the willingness of users to pay must be measured to establish an economic price. On the other hand, input prices may be distorted and need to be adjusted using a conversion factor or other methods to adjust them to reflect the real economic cost of the resources10. The detailed steps in moving from market prices to shadow prices are illustrated in the figure below:

[7] See section 2.7.7 of the EC guidelines for more details on conducting the financial sustainability analysis.

[8] Therefore, economic-cost-benefit analysis is also referred to as “social cost-benefit analysis”.

[9] For more information, refer to the EC guidelines (section 2.8.2, “Fiscal corrections”).

[10] For more information, refer to the EC guidelines (section 2.8.3, “From market prices to shadow prices” and sections following for more details on the specifications).



Source: EC Guidelines

Including externalities. An externality is any cost or benefit that is passed on by the project to other parties without monetary compensation, e.g. typical externalities in the transport sector are the costs of noise and air pollutant emissions or the benefits to non-users due to reduced congestion on alternative transport modes or routes.

Discounting net cash flows and calculating economic performance indicators (net present value and internal economic rate of return): future costs and benefits must be discounted to the present day (to give present values), because society values consumption today more than consumption tomorrow.

The same reference period (time horizon) for the economic analysis should be used as applied in the financial analysis. The social discount rate should be used to calculate the indicators of the economic analysis. This will differ from the discount rate applied in the financial analysis, which should reflect the cost of capital for the entity in question.

In accordance with EC guidelines, **the social discount rate of 5%** should be used for all present value calculations until a new rate is issued by the Ministry of Finance and Economy11 .

10.2 Estimation of costs and benefits, including greenhouse gas (GHG) emissions

There are several rules regarding the assessment of economic costs and benefits: -

Proportionality – the efforts made to analyze costs and benefits should be proportional to the size of a project (larger projects require a more in-depth analysis).

- Incremental approach – costs and benefits should be assessed with reference to option 0 (“no project” scenario).

- Use of prices in real terms.

[11] The EC guidelines allow countries to estimate their own social discount rates, provided that the use of parameters country-specificity can be properly justified.

- Market-based approaches – the project's benefits, which are often difficult to assess due to the fact that many public services are free of charge, should be assessed based on potential users' willingness to pay or willingness to accept.

Willingness to pay is the maximum payment that a beneficiary would be willing to give up to receive a public service. Similarly, willingness to accept is calculated for benefits and represents the minimum payment that someone will accept to live with a nuisance, such as increased noise pollution. Potential users' willingness to pay or willingness to accept can be assessed using revealed preferences (preferred and less technically challenging) and stated preferences (when revealed preferences are not possible). The stated preferences approach requires expert advice to design and interpret surveys. It should be emphasized that the method should be used when benefit/cost is essential to the decision and sensitivity analysis should always be applied to the results12

.

The identified costs and benefits should be presented and described at this point, along with their valuation in monetary terms.

In international terms, a significant cost (and sometimes benefit) of a project is the increase/reduction of greenhouse gas emissions. The impact of greenhouse gases is global, long-term and subject to international commitments, so it should be carefully considered in the documentation. The analysis should present a measure of the volume of additional emissions emitted or saved into the atmosphere due to the project. The next step is to assess the externality, using a cost per unit of CO2 equivalent 10.3 Assessment of effects not captured by the economic assessment Not all benefits [13].

can be assessed in monetary terms. Those costs and benefits that

could not be assessed in monetary terms should be presented and described in this chapter. Where possible, these costs and benefits should be expressed in physical quantities. Assumptions made in the indicators should be transparent so that they can be checked and (if necessary) challenged by evaluators.

10.4 Cost-benefit analysis and economic performance Once all

the costs and benefits of the project have been calculated and evaluated in monetary terms, it is It is possible to measure the economic performance of the project, by calculating the following indicators:

The net present economic value is the difference between total discounted social benefits and costs.

The internal economic rate of return is the discount rate, which produces a zero value for the NPV.

In principle, any project with an internal economic rate of return lower than the social discount rate, or a negative net economic present value, should be rejected. A project with a negative economic return uses up valuable social resources to achieve very modest benefits for all citizens.

The specific application of economic analysis varies by sector.

While the results of the economic analysis should be very important in informing the feasibility study recommendations and appraisal decision, other factors may influence the final decision, including significant costs or benefits that have not been monetized and sustainability factors.

11. Value for Money Analysis for Public Private Partnerships 11.1

Methodological Approach

This chapter applies only to projects to be implemented under the PPP modality.

[12] For details see: Sections 2.8.6 and 2.8.7 of the EC guidelines.
[13] For details see: Section 2.8.8 of the EC guidelines, GHG emissions assessment.

PPP is an implementation modality that can be used in public projects, when justified.
The analysis that compares the efficiency of project implementation in the PPP formula compared to the traditional implementation formula by the public entity is called the “Value for Money” analysis14 .

Value for money analysis should be carried out for each PPP project, once its feasibility (including economic effectiveness) has been confirmed. Its purpose is to answer the question of whether the project under consideration should be implemented using the PPP or the traditional method. Value for money analysis should be carried out for projects that have been shown to be potentially feasible using the PPP modality at the stage of completing the investment project concept form, when prior reasons for considering this approach should have been identified.

Value for money analysis includes qualitative analysis and quantitative analysis.

11.2 Qualitative value for money analysis

Qualitative value for money analysis should consider the benefits that can be obtained from a societal interest perspective in the following areas:

Table 1: *Qualitative value for money*

No. Area 1	*analysis* **Key**
Project scale	**questions** - Is the scale of the project sufficient that any efficiency improvements can offset the procurement costs?
2 Time needed to complete the project	- Will the use of the PPP mode for project implementation allow for faster project implementation? - Will using the PPP formula reduce the risk of delays compared to the traditional model?
3 Division of duties	- Will the implementation of the project, using the PPP modality, allow for the provision of better quality infrastructure in the long term compared to the traditional model? - Is there an increase in the quality of services offered within the PPP project? Can the same level of service quality be provided in the traditional model? - Does the private partner have greater experience/expertise than the public partner in providing services? - Are specialized competencies needed for project implementation?
4 Risk sharing	- Will the private partner be able to manage the risks transferred in the PPP mode better than the public entity? - Can these risks be passed on to contractors in the traditional investment implementation model?
5 Project duration costs	- Is the project relatively complex so that private partners can provide innovative design, construction and management solutions that together can create synergies for increased efficiency? - Is there potential for innovation? Is it different for investment implementation models?
6 Fees from users and third parties	- In the PPP model, can the private partner obtain additional revenue by reducing user fees?
7 Public funds spending profile	- Have the benefits of establishing long-term project costs been identified? - Will the use of the PPP model allow the public entity, for a given project, to carry out other projects thanks to the greater availability of funds in the short term?
8 Market appetite	- Is there evidence that there are enough potential private partners with the appetite and capacity to deliver the project? - Does the nature of the transaction (e.g. its strategic importance) suggest that it will be viewed by the market as a profitable venture?
9 Ability to determine	- Can the results and quality of contract implementation be easily monitored?

[14] A comprehensive approach to value for money is presented in the Value for Money Assessment. Review of Key Approaches and Concepts (March 2015) available at: https://www.eib.org/en/publications/epec-value-for-money-assessment.

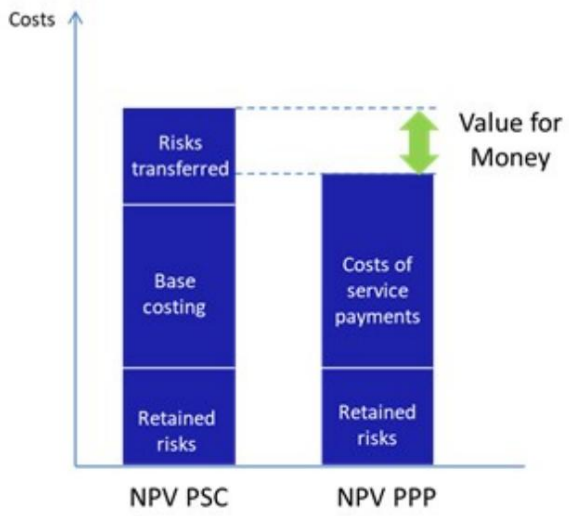
	and monitor the results	
10	Characteristics of future demand	- Is the demand for the services provided under the project subject to rapid changes due to changes in technology?

If the answers to the above questions indicate that the project has a chance of being successfully implemented in the PPP formula, you need to move on to quantitative analysis.

11.3 Quantitative Value for Money Analysis

The quantitative value for money analysis is based on a comparison of the public sector financial flows in both scenarios.

For this purpose, it is necessary to build a financial model for the implementation of the project in the traditional formula (discounted cash flow method), the so-called Public Sector Comparator (PSC).



The present value of the public sector cash flows is compared with the present value of the public entity's cash flows in the PPP model over the same analysis period, using the same interest rate.15 When developing the public sector benchmark model, which represents the cash flow projection for the scenario in which the public authorities implement the project, it is necessary to consider several important steps to make it comparable with the PPP model. The steps are presented in the table below.

Table 2: *Steps in quantitative value for money analysis*

No. Step 1		**Comment**
Identify costs and revenues and forecast	cash flows for project implementation, using the traditional method Consider risk in the PSC	The design will include capital expenditure, operating costs, working capital, user and third party revenues (if any), tax flow modelling, etc. It should also be taken into account that the public entity may implement the project at a different date than the date in the PPP model (implementation plans may differ between scenarios). The net discounted costs of implementing the project in the PSC at this stage are called the baseline costs.
2		In either variant, quantifying the risks that can be transferred to the private partner requires prior identification of the risks and their allocation between the public entity and the private partner. The public sector comparator should take into account

[15] The main assumption is that the parameters of the reference project are the same for both investment implementation models, both in terms of the material facility and the standard of the facility and services provided. This does not mean the same level of costs and/or revenues in both scenarios.

		taking into account the value of the risks that would be transferred to the private partner if the project were implemented in the PPP formula.16 If a specific risk is shared between the public entity and the private partner, only the portion of the risk that would be transferred to the private partner under the PPP option should be included in the PSC.
3	Include the difference in socio-economic cost and benefit in the PSC	Although in both scenarios we consider a similar project, the value for money calculation methodology allows for the consideration of differences in the implementation schedule of a given project, which may result in a later availability of the asset or a later start of service provision. It is important to ensure that differences in tax flows do not affect the results of the analysis and the
4	Include fiscal neutrality	comparability of the conventional option with the PPP option. The potential benefits of a tax reduction or a lower tax paid in the PSC should be adjusted.
5	Calculating NPV for PSC and VfM ratio	Calculating the present value for the flows determined by the public sector comparator and comparing it with the present value for the PPP formula, using the same discount rate, is the final step.

If, as a result of comparing the present values for both delivery models, the resulting present value of the public entity flows in the PPP model is higher than the estimated PSC values, this indicates a higher efficiency of the PPP mode.

Finally, the decision to choose the project implementation method should be based on qualitative and quantitative analysis, including market testing, which should provide an answer to what level the market can complete the project within the assumed parameters.

In case of selecting the PPP option as the best form of implementation of a project, the proposing institution must also submit estimates on the estimated value of the contract, the proposed duration of the contract, as well as any other information necessary for the preparation of the tender documentation, maintenance costs, etc., in accordance with the legislation on concessions and PPP.

12. Environmental and social impacts

12.1 Environmental impact, taking into account climate change adaptation and mitigation The description presented in this section should answer the following questions: - How does the project contribute to national environmental policies?

- What is the expected impact of the project on climate change?17 -

How is climate change mitigation being or should be taken into account within the project? and adaptation to climate change?18

- Is the project resilient to climate change under different climate scenarios?
- Is an Environmental Impact Assessment (EIA) required by law for the project?
- If requested, what are the results of the preliminary EIA?
- Are any negative environmental impacts anticipated?
- What are the proposed mitigation measures and are the final impacts acceptable? It is common for projects to have some negative environmental impacts, which, wherever possible, should be expressed in quantitative terms (level of environmental concern and number of people/families affected). It is therefore important to consider mitigation measures for

16 Risks which, regardless of the adopted investment implementation scenario, remain with the public sector (so-called retained risks) do not need to be included in the quantitative value for money analysis, because they do not differentiate the scenarios. 17

If there are significant costs or benefits associated with the project's impact on climate change, they should be monetized and included in the economic analysis.

18 For information on how to integrate climate considerations into Environmental Impact Assessment, see: Guidance on Integrating Climate Change and Biodiversity into Environmental Impact Assessment, European Commission, 2013.

address them. The adverse impacts and proposed mitigation measures should be summarized here and included in the economic analysis where assessment is possible19 .

12.2 Social impact

Since the benefits and costs of a project are often distributed disproportionately across different groups in society, social impacts need to be carefully considered. The purpose of this activity is not to assess the social consequences of the project, as this should be the subject of an economic analysis, but to assess to what extent specific groups will be affected. In some cases, it may be the case that a project with relatively low economic indicators has a very positive impact on groups considered vulnerable in certain areas (e.g. women or residents of deprived regions). This needs to be taken into account by decision-makers. A social impact assessment will usually consider the impact of the project on income levels, poverty, unemployment, gender equality and minorities.

The best way to provide evidence that the social impacts of the project have been properly considered is to involve affected groups in meaningful consultations with stakeholders and present the findings and subsequent or planned actions resulting from them. This section should also present mitigation measures for those negatively affected, e.g. residents affected by noise from a new road.

Where projects are expected to have negative social impacts on specific stakeholder groups, they should be given special consideration to avoid potential disputes and delays in implementation. The means of monitoring social impacts should be determined.

13. Implementation and operational sustainability 13.1

Capabilities of implementing and operating entities This

section of the feasibility study should describe the capabilities of implementing and operating entities.
operating in relation to:

- Technical capacity (at least provide an overview of the expertise needed to implement the project and indicate the number of staff with such expertise available within the organization and allocated to the project).

- Legal capacity (as a minimum information, indicate the legal status of the beneficiary that allows the implementation of the project and its capacity to take legal action, if necessary).

- Financial capacity (a brief descriptive summary of the results of the financial viability analysis); at a minimum confirm the financial situation of the body responsible for implementing the project, to show that it can guarantee the liquidity for the adequate financing of the project, to ensure its successful implementation and future functioning, in addition to other activities of the body).

- Administrative capacity (as a minimum, indicate comparable projects implemented in the last ten years and, in the absence of such examples, indicate whether technical assistance needs have been taken into account; refer to institutional arrangements such as the existence of a Project Implementation Unit (PIU) capable of implementing and operating the project and, if possible, include the proposed organizational chart for the implementation and operation of the project).

The purpose of this section is to demonstrate that the project proponent has the capacity to implement the project successfully. The assessment should take into account the size and complexity of the project against the available implementing resources (in terms of quantity and quality) of the proposing authority. It should also answer the question of whether the proponent has experience in similar projects.
This question is particularly important in the case of PPP implementation. In cases where it is clear

[19] If direct valuation is not feasible, value transfer methods can be used.

that domestic resources are insufficient, realistic means must be provided to bring in external assistance.

13.2 Overview of project management arrangements This section should present the project management arrangements. The roles and responsibilities of the relevant entities should be described here. It should demonstrate that tasks have been appropriately allocated, taking into account the experience and resources of the responsible entities. Organisational arrangements should be presented for both the implementation phase and the operational period. The section aims to ensure that risks associated with project management are minimised.

14. Risk and sensitivity analysis 14.1 Main sources of risk and their potential impacts, mitigation measures A risk is an uncertain event or condition that, if it occurs, has a positive or negative effect on a project. Risks exist as a result of uncertainty regarding the key parameters of a project (e.g. cost, implementation time, service requirements, etc.). In general, uncertainty produces exposure to risk in the failure to: - be in line with the project budget; - achieve the required project completion date; - meet the required design specifications; and - achieve the required project objective.

Each of these outcomes would have a negative impact on the NPV and NPV estimates. of.

Risk analysis and risk management represent a structured approach to identifying, assessing and controlling risks that may arise during the duration of a project. Risks can be categorized as follows: - Construction risk: Asset not completed on time, according to budget or specifications; - Demand risk: Demand for services does not meet forecasts; - Design risk: Design may not provide services according to required performance or quality standards; - Economic risk: Project costs or benefits affected by economic impacts, e.g.,

inflation or exchange rate movements;

- Environmental risk: Negative environmental impacts cause major public opposition; - Financing risk: Availability of financing delays the project or changes the facility; - Legislative risk: Changes in legislation increase costs, e.g. tightening of environmental standards; - Operation and maintenance risk: The costs of operating and maintaining the new facility differ from the planned budget; - Procurement risk: Lack of contractor capacity or contractual disputes; - Technological risk: Services provided using suboptimal technology due to rapid technological changes; - Climate change risks20: could the project be affected by any hazards caused by

from climate change during the implementation or operational phase;

- Disaster risks: could the project be affected by any natural hazards during implementation? or operational performance.

Risk analysis should follow the following steps: - Identification of risks (mentioned above) for the successful implementation of the project; - Probability of occurrence: Probability is a number between 0 and 5, where 0 means that a materialization is very unlikely and 5 indicates that the occurrence is certain.

[20] Detailed instructions are provided in the next chapter.

- Risk impact rating: The risk impact is a number between 0 and 5, where 0 means that the impact on the project will be insignificant and 5 indicates a major impact on the project.
- Category ranking – classify risks into categories that indicate how likely they are to occur and their influence.

Table 3: *Example of a risk matrix*

		impact				
		minimum	**Small**	**Moderate**	**critical**	**Catastrophic**
Probability	Very impossible	Low	Low	Low	Low	Average
	Not likely.	Low	Low	Average	Average	High
	About as likely as not	Low	Average	Average	High	High
	Likely	Low	Average	High	Very high Very high	
	Very likely	Average	High	Very high Very high Very high		

Source: Guide to cost-benefit analysis of investment projects, European Commission, 2014

- Development and presentation of applicable measures for risk reduction and management

14.2 Climate change risk assessment with mitigation measures

The climate change assessment at this stage indicates that the project has a level of risk from climate change. The objective of risk assessment remains the identification of significant climate risks, such as basis for identifying, assessing and implementing targeted risk reduction measures. In this phase, the Project Proponent will have a basic level of knowledge regarding the vulnerability of the project to climate change. The identified risks associated with climate change should be are considered threats to the successful implementation and operation of the project, although if uncertainties remain, detailed data should be sought to confirm or expand the assessment initial vulnerability. Once the vulnerability is confirmed, the risk assessment can be expressed in the form of a standard risk matrix.

The detailed risk assessment will require separate consideration of each identified risk associated with with climate change in relation to the project. It should be based on an assessment of the possibility of the occurrence of a particular risk (probability) and the magnitude of its impact (impact) on the project. The level of risk is a combination of two factors: probability and strength of impact. The higher the The higher the level of risk, the more intensive the corrective actions needed to combat the risk. There where the risk is too high and adaptation is too expensive, abandoning the project is the course of action final, but it is more likely that cost-effective adaptation measures will need to be designed. The more local and specific the data, the more accurate and relevant the assessment will be. In Table 2 determines the level of risk depending on the level of probability and the strength of the impact.

Table 4: *Risk matrix*

		impact				
		minimum	**Small**	**Moderate**	**critical**	**Catastrophic**
Probability	Very impossible	Low	Low	Low	Low	Average
	Not likely.	Low	Low	Average	Average	High
	About as likely as not	Low	Average	Average	High	High
	Likely	Low	Average	High	Very high Very high	
	Very likely	Average	High	Very high Very high Very high		

Source: Guide to cost-benefit analysis of investment projects, European Commission, 2014

A probability or chance of occurrence should be attributed to each identified risk.
The probability of a climate hazard occurring is difficult to assess, as there are many uncertainties about the future path of climate change and its localised effects. For the purposes of detailed risk assessment in Albania, it is suggested, according to EU guidelines, to use a scenario that includes a 2oC increase in global average temperatures by 2050, remaining stable thereafter21 . For large and complex projects, other, more extreme scenarios should also be considered when conducting sensitivity analyses. The recommended classification of probabilities is as follows22: - very unlikely - 0–10% probability; - unlikely - 10–33% probability; - almost as
likely as not - 33–66% probability; - likely -
66–90% probability; - very likely - 90–
100% probability.

The magnitude of the risk's impact on the project and its operational performance should be classified according to the following
classification: - minimal
– no effect; - minor – minor effect on the objectives and expected benefits of the project, which may are further minimized by taking small corrective actions;
- moderate - moderate effect on the objectives and expected benefits of the project, which can be are also minimized by taking corrective actions;
- critical – strong negative impact on the objectives and expected benefits of the project, which is extremely difficult to counter by taking corrective action;
- catastrophic – very serious, negative impact on the project's objectives and expected benefits, which could result in a serious or even total loss of the originally assumed effects.
- The risk matrix allows for the initial planning of risk responses. Depending on the level of risk, different mitigation measures should be implemented in the project. The “intensity” of the measure should be proportional to the level of risk. For risks with a high level of impact and probability, a stronger response and a higher level of commitment to their management should be pursued. On the other hand, for low-level risks, close monitoring or small mitigation measures may be sufficient. Keeping the option in the project design for future adaptation is also a response where uncertainty about the localized effects of climate change is high23 .
The identified risk reduction measures will be presented together with the identification by the relevant project-level risk manager, as well as the phase of the project life cycle when the risk could materialise (planning, implementation, operation). Finally, the impacts of the preferred risk reduction measures on the project resilience and the residual risk exposure should be assessed. For each adverse event, it is necessary to assess the residual risk after the implementation of the identified measures. The characteristics of each identified climate-related risk can be presented in a form as shown in Table 5.

Table 5: *Characteristic form of risk*

Specification	Description

21 It is consistent with the objective set in the Paris Agreement of keeping the increase in the global average temperature below 2°C above pre-industrial levels.
22 IPCC, 2012: Managing the risks of extreme events and disasters for advanced adaptation to change climatic.
23 Maintaining the option for future adaptation may require the option to be “designed in” and may require some initial expenses.

Identified risk (potential climate risk)	Drought, flood, etc....
The phase of the project that is at risk	Planning, implementation,
Probability of occurrence	operation Very unlikely/impossible/almost as likely as not/possible/very likely
iMPACT	Minimal/minor/moderate/critical/ catastrophic According to the risk matrix based
Risk level	on probability and impact (low/medium/high/very high)
Possible measures identified for risk reduction (project adaptation options)	Identify measures that will limit the impact of risk on your project. The evaluation of different options will be subject to multi-criteria analysis or cost-benefit analysis, where applicable.
Selected risk prevention measures Who will be	Present the selected risk prevention measures applicable to the project.
responsible for managing the identified climate change risk?	For example, a dedicated department in a ministry or municipality.
Estimated level of residual risk (after implementation of identified and selected risk prevention measures)	Please assess the level of residual risk and explain how the envisaged mitigation measures address and reduce the risk.

Climate risk assessment generally defines the potential risks in terms of risk, and therefore provides a solid basis for assessing the urgency of adaptation actions. Creating a set of adaptation options, from the perspective of a given public investment project, requires a practical approach. Such an approach should involve, above all, distinguishing several potentially cost-effective adaptation options and then evaluating these options to select the optimal approach.24 14.3 Risk management plan The risk management plan (expressed through a “risk register”) should indicate who will be responsible for managing

each individual risk and how to respond

to the risk if it were to materialize. Risks are best managed when individual members of the project team (rather by title than by name) are responsible for monitoring and managing each risk, so such a position should be indicated for each identified risk. The risk register is particularly required for the feasibility study phase and may take a less detailed form for the pre-feasibility study phase. Overall, this makes the task of monitoring risks during the implementation and operational phases much easier.

14.4 Sensitivity Analysis

Sensitivity analysis involves determining the extent to which the results of the quantified economic analysis are sensitive to changes in the values of key input parameters such as capital costs, future demand or the value of benefits. Performing sensitivity analysis enables recalculation of the economic indicators of the project on the basis of less optimistic values for important variables, or using less favorable assumptions. In general, it involves increasing important cost elements or reducing important benefits by given percentages and observing the impact on the NPV. In addition to testing the robustness of the NPV estimate, the most useful sensitivity analysis helps to identify those variables that are most critical to the success of the project and that may need more careful management (see risk management planning below) or more in-depth analysis.

[24] For further guidance on analysing adaptation options see: “Technical Guide on Resilience from infrastructure climate in the period 2021–2027”. European Commission Notice, 2021/C 373/01.

In practice, the values for the parameters given for the economic analysis may be interdependent or subject to systematic estimation biases (see, for example, the discussion of optimism bias below). For this reason, it is reasonable to conduct scenario analyses where the quantified economic analysis is subjected to simultaneous changes in key input parameters in order to test the sensitivity of the results. A number of different "what-if" scenarios can be formulated, each with different combinations of input values for the variables and/or key assumptions. The two scenarios that should always be considered are the "worst-case" scenario and the "best-case" scenario. In these two scenarios, the sensitivity of the economic viability of the project to the most pessimistic and optimistic combinations of key input parameters is tested.

At a minimum, the following tests should be performed, which represent less optimistic results:
for costs and benefits, and detailed results with conclusions presented in this chapter: - Recalculate the NPV assuming a 10% increase in total capital costs; - Recalculate the NPV assuming a 25% increase in total capital costs; - Recalculate the NPV assuming a 10% decrease in total benefits; - Recalculate the NPV assuming a 25% decrease in total benefits; - Recalculate the NPV assuming a simultaneous 10% increase in capital costs and a 10% decrease in benefits - pessimistic baseline scenario.

- Recalculate the NPV, assuming a simultaneous increase in capital costs of 25% and
25% benefit reduction - the base worst-case scenario.

15. Conclusions on Project Feasibility This chapter should present the conclusions resulting from the previous chapters of the preliminary feasibility study, with a clear indication of the feasibility of the project and a recommendation for the appraisal decision.

In principle, for a project to be considered viable, it must meet several different criteria, in terms of legal, technical, financial, environmental, social and economic aspects extensively analysed in the previous chapters of the document. A positive (risk-adjusted) ENPV is generally considered a necessary but not sufficient condition for a positive appraisal decision, but exceptions are possible if they are carefully justified. It may therefore be the case that a project, despite having a slightly negative ENPV, may be recommended for a positive appraisal decision because the benefits accrue mainly to vulnerable members of society or because it has some significant environmental (or other) benefits that cannot be easily assessed. On the other hand, a project with a slightly positive ENPV may be recommended for a negative appraisal decision because it has some significant negative environmental effects that have not been assessed or because it is very sensitive to changes in the assessed costs and benefits (as shown through sensitivity analysis).

Dictionary

Asset – a resource with economic value, owned or controlled, for the purpose of producing value.
financial and/or economic benefits.

Beneficiary – an individual, group or entity that benefits as a result of the implementation of a project.

Benefit Cost Ratio (BCR) – a comparative result from a cost-benefit analysis.
A BCR above 1.0 is a positive result.

Capital project – a project that requires capital expenditures to carry it out.

Capital expenditures – are expenditures made for the purpose of acquiring or improving assets such as property, plant, buildings, technology (including information systems – both hardware and software) or equipment.

Cost-benefit analysis (CBA) – a tool for analyzing projects, comparing the potential benefits with the estimated costs of its implementation.

Cost-effectiveness analysis (CEA) – a tool to evaluate projects, to analyze the most economical way to achieve a project objective.

Differential financial model – a financial model prepared for a project that compares the cash flows for the entity in the “with project” scenario and the entity in the “without project” scenario and compares them to determine the differential cash flows that are used to determine the financial performance indicators of the project. This model estimates future cash flows in two scenarios – investment and non-investment. The financial analysis should present the costs and revenues resulting from the first scenario, minus the costs and revenues resulting from the second scenario.

Economic analysis using the cost-benefit analysis (CBA) method is a process of comparing the estimated costs and benefits of a project, calculating them in monetary terms, even when market prices do not exist, projecting annual cash flows over the life of the project and using the discounted cash flow method to obtain a net present value of these annual net cash flows. This method is a tool that assesses whether a particular venture is worth implementing or not.

Environmental Impact Assessment (EIA) – a study of the expected impacts (positive or negative) of a proposed project on the environment, with recommendations on how to mitigate the negative impacts.

Feasibility Study (FS) – a comprehensive study of the overall feasibility of a proposed project; it should cover both the technical and economic aspects of the project and be supported by preliminary technical documentation. The preparation of a feasibility study often requires the collection of primary data.

Financial analysis – analysis aimed at determining the value of the financial performance indicators of the project and verifying the financial viability of the project. It is usually carried out from the perspective of the infrastructure owner. In case there are several entities in the project (e.g. the infrastructure owner and its operator), a consolidated analysis should be carried out showing the project as a whole (consolidated analysis). In financial analysis, the discounted cash flow (DCF) method is used to determine financial efficiency ratios.

Financial sustainability – the project is considered financially sustainable when the available sources of financing can be matched with the value of disbursements in a way that there is a positive cash balance (cumulative cash flows) at each year-end, over the project time horizon (both during the implementation and operational phases).

Fixed assets – assets that are used repeatedly or continuously in production processes for more than one year.

Inputs – the required components needed to implement a project.

Internal Rate of Return (IRR) – the discount rate that produces a zero NPV.

Investment – the purchase of an asset with the expectation of generating a future stream of benefits.

Logical Path – a series of steps that aim to transform a need into positive outcomes and impacts.

Multi-criteria analysis (MCA) – a tool for analyzing and comparing different options against a number of pre-agreed criteria.

Net present value (NPV) – the sum of a project's discounted net cash flows.

Objective – the desired achievement for the project; it should address the identified problem or need.

Operation and maintenance costs – the total annual costs of running an operational project, including personnel costs, ongoing maintenance costs, and the goods and services that must be procured for the efficient operation of a facility.

Outcome – the direct benefits of the project, necessary to address the problem or the identified need.

Output – the final products of the inputs and activities in a project.

Preliminary Feasibility Study (PFS) – a study usually undertaken for large or complex projects to investigate whether the preparation of a more detailed (and expensive) feasibility study is justified. Methodologically it is the same as a feasibility study, but is usually based on the analysis of existing data (or primary data collection is carried out on a very limited scale).

Project risks – events that could cause a deviation from the desired results or costs of a project.

Residual value – the financial or economic potential of the project in the remaining years of its duration (economic duration), calculated in the last year of the reference period used for the analysis. This value will be zero or close to zero if the reference period is close to the economic duration of the fixed assets. It is recommended to measure the residual value as the value of net fixed assets, determined, using the depreciation method and period in accordance with the accounting policy of the operator.

Shadow price – the acquisition of benefits and costs in the absence of market prices.

Social discount rate – the discount rate used in economic analysis; it reflects the social perspective on how future benefits and costs should be valued against current ones.

Social Impact Assessment – an assessment of the social consequences of a project. It focuses on the distribution of benefits and costs to different groups in society and seeks recommendations on mitigating negative impacts.

Stakeholder – an individual, group, or entity with an interest in a project.

Value transfer methods – used to assess the non-commercial benefits and costs of the project by transferring (and adapting) information from completed studies to other countries or contexts.

Willingness to Pay – measures the maximum amount of money that consumers are willing to pay for a unit of a given good. This method is used to estimate the direct benefit(s) associated with using the goods or services provided by the project. The WTP method estimates the value of money through users' revealed or stated preferences.

Willingness to accept – measures the minimum amount of money that consumers are willing to accept to cope with a negative externality.

ANNEX 2
SIMPLIFIED FEASIBILITY STUDY

TABLE OF CONTENTS OF THE SIMPLIFIED FEASIBILITY STUDY **1. Executive Summary** 1.1 General information on the project

1.2 Identified issues 1.3 Project relevance

1.4 Main objectives 1.5 Main
conclusions **2. Need and**
problem analysis 2.1
Intervention rationale 2.2 Problem description 2.3
Current impacts **3. Project**
objectives 3.1 Overall objective
3.2 Specific objectives

3.3 Key indicators **4. Consistency**
with national/local policies and
strategies 4.1 Strategies
with which the project is
consistent 4.2 Integration into sectoral or local development plans **5. Analysis of**
alternatives 5.1 Description of possible options (including “no
project”)

5.2 Selected Alternative **6. Technical**
Description of the Selected Project 6.1 Main Technical
Components, Technology, Timeframes, Dimensions, Infrastructure **7. Economic and Social**
Analysis (Cost-Benefit)
7.1 Main costs 7.2
Community benefits 7.3 Social impact
8. Financial
assessment and sources of financing 8.1 Investment cost
8.2 Sources of financing
8.3 Affordability analysis **9.**

Environmental and climate impact
assessment 9.1 Environmental risks, climate impact 9.2
Legal requirements for environmental and climate
impacts **10. Main risks and risk mitigation measures** 10.1 Main
risks 10.2 Risk management **11. Implementation plan and project**
management 11.1 Main
implementation steps 11.2
Responsible actors 11.3 Inter-institutional coordination **12.**
Conclusions on the feasibility of the Project

Introduction This guideline aims to provide a methodology for the preparation of simplified feasibility studies, intended for central government units in the Republic of Albania. This guideline aims to clearly and structuredly guide the process of preparation and content of simplified feasibility studies, which are used as a basic tool for the evaluation of public projects within the framework of Public Investment Management. Central government units, which

are responsible for proposing and managing projects at the central level, bear the main responsibility for carrying out complete and accurate project assessments. This instruction sets out the minimum necessary content that simplified feasibility studies should contain, in order to provide a reliable and standardized basis for making decisions on public investments.

The structure of the simplified feasibility study, as presented in this guideline, does not necessarily require the inclusion of all the elements described below in every case. Depending on the nature and complexity of the project, as well as the specific needs of the responsible institutions, additional elements may be included, which will better address the particularities of the project in question.

In this way, the guidance provides a flexible, yet clear framework for the preparation of simplified feasibility studies, promoting an efficient and transparent process of evaluating public projects in Albania.

For more detailed information on preparing simplified feasibility studies, refer to methodology on the preparation of full feasibility studies.

1. Executive summary 1.1

General information about the project This

section describes the project briefly and clearly, including its title, sector, location, duration, etc. It provides a general overview of the nature of the project and the main objective it aims to achieve. It mentions the main stakeholders involved and the context of the project's development within the relevant area or sector.

1.2 Identified Issues A description of the

current situation is included, identifying the gaps and obstacles that exist without the implementation of the project. The negative impact of these issues on the community, sector or economy is emphasized. This explains the main problems, needs or challenges that the project aims to address.

1.3 Project Significance

This section explains why the project is important and what benefits it will bring in economic, social, or environmental terms. It describes the positive impact that the project will have on improving existing conditions and on the sustainable development of the area or sector.

1.4 Main objectives

This presents the main goals that the project aims to achieve. The objectives should be clear, measurable and directly linked to solving the identified problems. The results expected to be achieved during and after the project implementation are mentioned.

1.5 Main conclusions

This section summarizes the main results and overall assessments from the feasibility study analysis. It provides a conclusion on the feasibility of the project and the benefits it brings, while also suggesting further steps for its implementation.

2. Need and Problem Analysis 2.1

Justification of the

Intervention This section explains the reasons and motives that require intervention through the project. It presents an analysis of the immediate need to solve existing problems and shows why the intervention is necessary at this time, considering the impact it will have in improving conditions for the community, sector or environment where the project will be implemented.

2.2 Problem Description

This section describes in detail the main problem that the project aims to address. The factors contributing to the existence of this problem are identified, including social, economic and technical factors. A clear description helps to understand the challenges of the project and emphasizes the necessity of finding appropriate solutions.

2.3 Current Impacts This

explains the effects and consequences that the problem currently has on the community, economy, environment or existing infrastructure. The damage or disruption caused by these impacts is identified, emphasizing the importance of immediate intervention to prevent further deterioration and improve the overall situation.

3. Project Objectives 3.1

Overall Objective The overall

objective summarizes the main purpose of the project, which is the major reason for its implementation. It expresses the change or improvement that the project aims to achieve in an overall way, reflecting the positive impact it will have on the community, sector or environment during and after its implementation.

3.2 Specific objectives

These are detailed and measurable goals that the project aims to achieve in a concrete manner during the implementation period. Specific objectives help to divide the overall objective into clear and achievable steps, which can be monitored and evaluated through defined indicators.

3.3 Key indicators This

section describes the indicators or metrics that will be used to measure the success of the project in achieving its objectives. These indicators are directly linked to the expected results and can be quantitative or qualitative, providing a clear basis for monitoring and reporting on the progress of the project.

4. Compatibility with national/local policies and strategies 4.1 Strategies

with which the project is consistent This point identifies

the national or international policies, strategies with which the project is in line. It describes how the project goals and interventions contribute to the achievement of objectives set out in strategic government documents, such as sectoral strategies, the national strategy for development and European integration or EU documents.

4.2 Integration into sectoral or local development plans This

section analyzes the positioning of the project, within the framework of concrete development plans of the relevant sectors (such as education, health, infrastructure, etc.), or local development plans.
It describes whether the project is part of the priorities of the local authorities and in what way it supports the development objectives of the area where it will be implemented.

5. Analysis of alternatives 5.1

Description of possible options (including “no project”)

This section describes all possible options for solving the identified problem or need, including the “no project” scenario *(status quo).* Each option should be analyzed in technical, financial, environmental and social terms, indicating the respective advantages and limitations.
The goal is to evaluate alternatives that can achieve the project objectives in the most efficient and sustainable way.

5.2 Selected Alternative This

section presents the alternative that has been selected for implementation, providing a clear argumentation as to why it is more appropriate than other options. The selection should be based on comparative analyses of costs, benefits, impacts and risks. It should also highlight how this alternative maximizes economic and social benefits, minimizes negative impacts and is consistent with the strategic goals of the project.

6. Technical description of the selected project

6.1 Main technical components, technology, deadlines, dimensions, infrastructure

This section briefly describes the technical and infrastructural elements of the selected project. It includes information on the physical components (such as buildings, networks, equipment, etc.), the technology to be used, and the timelines for implementing each phase of the project.
It also describes the overall dimensions of the intervention, its functional capacity and geographical location. This description should be sufficient to provide a clear understanding of the structure and technical purpose of the project, subsequently supporting financial and impact analyses.

7. Economic and social analysis (cost-benefit)

7.1 Main costs This

section identifies and describes the main costs associated with the implementation of the project.
These include investment costs, operational and maintenance costs, as well as indirect costs that may be associated with project implementation. Including details on costs helps in assessing financial sustainability and comparing it with expected benefits.

7.2 Community Benefits This section

focuses on the concrete benefits that the local community or target groups will receive from the project. Benefits may be in the form of improved infrastructure, job creation, increased access to services, improved quality of life, or increased economic opportunities. A clear description of these benefits helps to justify the project.

7.3 Financial Benefits This

section describes the financial income expected to be generated by the project implementation, as a result of the use of the infrastructure or services created. These include sales revenue, tariffs, user fees, or other direct financial sources that the project may provide during the operation period. The analysis of financial benefits helps in assessing financial sustainability and in determining the return on investment time.

7.4 Social Impact This

section analyses the broader social impacts of the project, including changes in social welfare, demographic changes, improvements in education, health and safety, as well as any potential negative impacts that may require mitigation measures. This section highlights the importance of the project in the social transformation and sustainable development of the area of impact.

8. Financial assessment and sources of financing 8.1

Investment cost

This section describes in detail all costs associated with the implementation of the project, including the initial investment cost and the costs that will arise during the implementation and operation period of the project. The initial cost includes the purchase of land, the construction of infrastructure, technical equipment, costs for the design and management of the project. Also considered are the costs of replacing capital assets that may arise during the operation period, to ensure that the infrastructure and equipment remain functional and efficient throughout the life of the project. In the feasibility study, the total investment cost should be harmonized with the project budget and reflect a realistic assessment based on detailed market studies, price analyses and previous experiences. This section also includes the cost of maintenance and operation, including the costs of personnel, materials and other services necessary for the operation of the project in the medium and long term.

8.2 Sources of financing This

chapter focuses on the identification and analysis of different sources of financing that will cover the total investment costs and operating expenses over the life of the project. Sources of financing may include state budget funds, dedicated grant funds from international institutions, private investments, within the framework of public-private partnerships (PPP), as well as loans.

Each source should be described in detail, specifying financial terms, payment terms, etc.
It is also important to analyze the impact of the financing structure on the financial sustainability of the project, taking into account the sustainability of cash flows and the risk of interest rates, exchange rates, etc. The feasibility study should assess whether the combination of financial resources is adequate to cover all costs and ensure a financial balance that guarantees the implementation and operation of the project without interruption.

8.3 Affordability Analysis This section conducts a detailed analysis to determine whether projects are affordable from a fiscal and financial perspective throughout their life cycle. This analysis includes an assessment of the net impact that the project will have on the public budget, taking into account not only the direct costs of investment and operations, but also the potential revenues and indirect costs that may be generated by the project. The analysis is based on cash flow models, where different scenarios are compared to predict how potential liquidity shortages and financial obligations will be managed during the investment and operation period.
Affordability is closely linked to financial sustainability, where the project must demonstrate that it is able to meet its costs without causing undue pressure on public or private finances. This section should also address potential financial risks and strategies for managing them, including debt restructuring options, additional sources of financing, or measures to reduce operating costs.

9. Environmental and climate impact assessment 9.1 Environmental risks and climate impact This section analyses the main impacts that the project may have on the environment and climate, including air pollution, water pollution, effects on land and biodiversity, as well as possible acoustic and visual impacts. Greenhouse gas emissions and measures to minimize them are also assessed. Climate change risks and adaptation to them during project implementation are included.

9.2 Legal requirements for environmental and climate impacts This section summarizes the national and international legislation that the project must comply with, including environmental protection laws, air and water quality standards, and international climate agreements. It also describes the procedures for obtaining environmental permits and measures to ensure compliance with legal requirements during project implementation.

10. Key risks and mitigation measures 10.1 Key risks This section identifies the most important risks that may affect the implementation and operation of the project, such as: implementation delays, economic changes, technical problems, environmental and social impacts, or legal and political changes. It also describes the financial and operational risks that may jeopardize the sustainability of the project.

10.2 Risk Management This section describes the strategies and measures that will be taken to prevent, reduce or eliminate the identified risks. This includes plans for ongoing monitoring, emergency response procedures, allocation of responsibilities and involvement of relevant stakeholders. The objective is to ensure effective risk management throughout the project cycle.

11. Project Implementation Plan and Management 11.1 Key Implementation Steps This section presents the key phases of project implementation, including planned activities, timelines and milestones for each phase. It also includes procedures for resource management and progress monitoring.

11.2 Responsible actors

The entities and persons responsible for the implementation of each phase of the project are described, including their specific roles and responsibilities. The importance of clarity in the division of responsibilities is emphasized to ensure efficient implementation.

11.3 Inter-institutional Coordination This

section addresses the mechanisms and ways of cooperation between the institutions involved in the project. It describes communication channels, regular meetings and forms of information exchange to ensure effective coordination and avoid obstacles during implementation.

12. Conclusions on the Feasibility of the Project This

chapter summarizes the main results from all previous analyses of the feasibility study. An overall assessment of the feasibility of the project in technical, financial, economic, environmental and social aspects is presented. It is emphasized whether the project is feasible and sustainable based on the evidence and data collected.

Also, a clear recommendation for the final Project evaluation decision is provided, including suggestions for further steps or possible revisions in case of identification of critical challenges.

This chapter serves as a concise guide for decision-makers to make an informed decision based on the analysis performed.