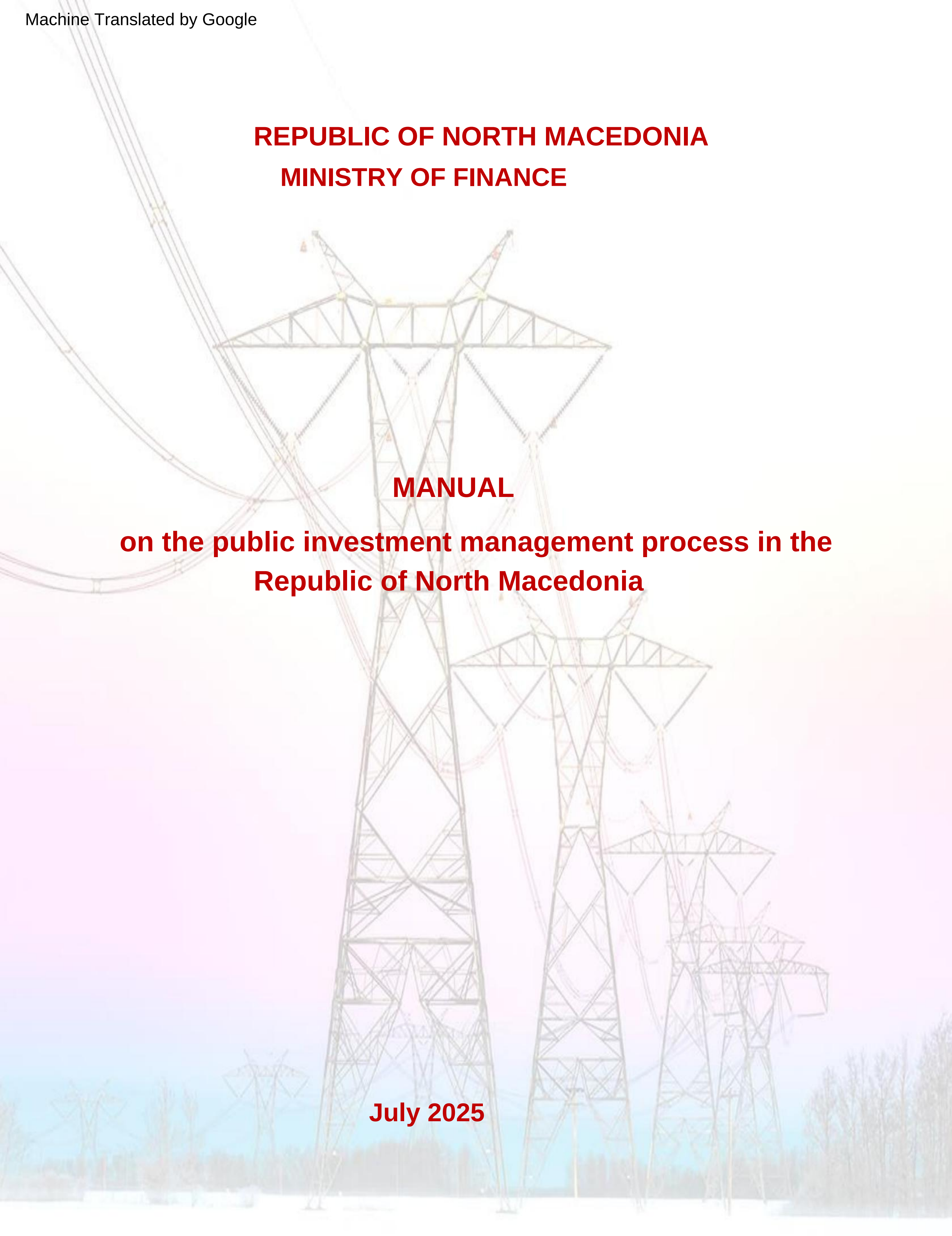

REPUBLIC OF NORTH MACEDONIA
MINISTRY OF FINANCE

MANUAL

on the public investment management process in the Republic of North Macedonia

July 2025

CONTENTS

1. Introduction

Public Investment Management (PIM) is a complex process that is essential for adapting to the contemporary needs of the national economy, reducing poverty and fostering prosperity. Its primary objective is the effective allocation of limited public resources in public investment projects.

investments. The PIU can be seen as a system that includes eight basic features throughout the entire duration of public investment projects.

The legal, regulatory and methodological framework for an effective public information system should be designed in such a way that detailed guidelines and methodologies can be adapted to changing circumstances, without the need to amend higher-level legal acts, which are often less flexible. In doing so, the legal, regulatory and methodological framework for the public information system should consist of:

of three levels:

- Level 1: legal basis for the PIU system. Usually established through some form of primary legislation.
- Level 2: basic procedural guidelines, decision-making criteria, high-level roles and responsibilities, and determination of analytical tools. Often prescribed in government or ministerial regulations or appropriate acts, adopted on the basis of primary legislation.
- Level 3: methodological guidelines, detailed criteria, standardized parameter values and procedural documentation. Usually issued directly by the PIU coordinating body (Ministry of Finance or other) in the form of manuals, guides, forms or circulars, within the framework of the authorization

  which is granted to it on the basis of primary legislation.

1.1. Legal basis for the procedure for managing public investments in North Macedonia

The basic law that provides the legal basis for the procedures for the Public Investment Institution in North Macedonia is **the Law on Budgets,** adopted by the Parliament of the Republic of North Macedonia on 15 September 2022, with all subsequent amendments, which lays the foundations for the establishment of an efficient public investment management system. **Article 20** ***Medium-term priorities and procedure for selection of new initiatives - projects and activities*** is directly related to the functions of the Public Investment Institution.

The Budget Law can be considered as an integral part of Level 1 of the PIU system.

Article 20 of the Law on Budgets stipulates that the main budget users, including municipalities, submit new initiatives in the form of public investment projects, on their behalf, or on behalf of the public entities under their jurisdiction, after a prior assessment and evaluation by the Ministry of Finance, or a working group/committee formed by the Municipal Council, and a determined priority of the proposed public investment projects by an interdepartmental working group/committee formed by the Government, or

The Municipal Council. They should be defined, prepared, reviewed, assessed, evaluated, and prioritized, in accordance with the manner, content, procedure, and criteria prescribed by the Government. The Government

It also prescribes the manner and procedure for implementing, monitoring and reporting on the implementation and ex-post review of ongoing public investment projects.

The next level 2 of the legal framework for the Public Investment Management (PIM) in North Macedonia was established with the enactment of the Regulation on Public Investment Management (the "PRM Regulation"), adopted by the Government of the Republic of North Macedonia.[1] The PRM Regulation defines the roles and responsibilities of the participants in the PRM in the phases of the life cycle.
project cycle.

Table 1: Key players in the PIU system in North Macedonia

Participant	Roles and responsibilities
Initiator on project	A public entity that initiates a public investment project, as defined in the Budget Law; responsible for identifying and developing the project.
Project proponent	The main budget user (or mayor of a municipality), who submits a public investment project proposal to the Ministry of Finance, who is also responsible for internal review of the project proposals prepared by the initiators of the projects.
Department for UJI (MF)	A department within the Ministry of Finance responsible for the quality review and scoring of public investment project proposals; it also manages the investment database. projects and supervises the implementation of the projects.
Competent authority for PPP	Prepares opinions on the suitability of projects to be implemented through the establishment of a public-private partnership (PPP), if the project initiator indicates potential for PPP.
Interdepartmental working group/committee[2]	Established by the Government of the Republic of North Macedonia in accordance with paragraph (2), Article 20 of the Law on Budgets, responsible for reviewing and prioritizing the new project proposals submitted by the central government, as well as for approval by the OKP.
Government/Council on municipality	It makes the final decisions on approval or rejection of project proposals and on the use of PPPs.

Source: Authors

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[1] *Decree on Public Investment Management, "Official Gazette of the Republic of North Macedonia", no. 78, dated April 11, 2025.*

[2] When it comes to projects implemented by municipalities, working groups/committees will be established. of the municipalities, in accordance with the Law on Budgets.

The Public Investment Management Process Manual in the Republic of North Macedonia is one of the elements of Level 3 of the Public Investment Management System. Its purpose is to provide support to public officials in managing public investment projects in accordance with national regulations and international best practices.

practices.

This Handbook serves as a comprehensive guide to guide, inform and support project proponents and initiators, government and municipal officials, and decision-makers, in order to better understand the principles and roles in the process of preparing and evaluating public investment projects in North Macedonia. It covers the preliminary stages that precede the

the implementation of the project, monitoring during its implementation and ex post

the review, in accordance with the procedure prescribed in the Regulation on the Public Insurance Institution.

The purpose of the Manual is to contribute to the alignment with the legal framework for the Public Investment Management System and the application of the highest quality standards in public investment management. The Ministry of Finance will make every effort to ensure the ongoing alignment of the Manual with the Public Investment Management Regulation. However, in the event of any discrepancy, the provisions of the Public Investment Management Regulation shall prevail as the legally binding framework.

1.2. Scope and content of the Manual

The overall objective of this Handbook is to support participants in the PII system in North Macedonia in making sound investment decisions based on good information, as well as to provide guidance for monitoring project implementation and ex post review. The Handbook serves as a guide and reference document for project proponents and decision-makers, in addition to

The Public Insurance Institute Regulation.

It is recommended that project proponents, if they already have internal procedures for PIU in place, align them with the national legal framework for PIU in order to ensure their mutual compatibility.

The manual consists of the following chapters:

- Chapter 2 provides guidance on identifying and preliminary screening of projects;
- Chapter 3 describes the assessment and review phases;
- Chapter 4 elaborates in detail on prioritization and selection of projects;
- Chapter 5 provides a brief overview of the implementation of the projects, monitoring and reporting during their implementation, and ex post the review.

It is important to emphasize that the Manual is not intended to provide detailed methodological guidance to project initiators. It also does not contain guidance on project appraisal, ex post evaluation and similar processes, nor does it include standard values.
for national parameters used in the economic analysis of investment projects
projects (for example, shadow prices for coal or statistical value of life).
These aspects will be covered in separate documents that the Ministry of Finance will further develop and publish.[3] The Manual provides general guidance and contributes to a better understanding of the roles and responsibilities of participants in the PROI system, as defined in the PROI Regulation.

The scope and complexity of the assessment phase and other stages of the process should be proportionate to the size and nature of the proposed investment. In order to achieve a balance between efficient use of resources and reducing the risk of approving projects with an unfavorable outcome, the Regulation on the Public Investment Promotion Agency defines specific thresholds regarding the expected documentation for the stages of the Public Investment Promotion Agency process that are relevant to the projec
precede implementation.

Table 2: Required project documentation based on project size

Documentation for the stages of the PIU process	Project size expressed in million euros[4]		
	Small value projects	Medium-sized projects	High-value projects
	under 5.0	**5.0 – 15.0**	**> 15**
Project Concept Form (PCF)	Yes	Yes	Yes
Pre-feasibility study **5** No		No	Optional6
Feasibility Study and Feasibility Study Summary	No	Yes	Yes

Source: Authors

[3] The Guide for the Preparation of a Feasibility Study prepared by the Ministry of Finance is published on its website. The Guide outlines what a feasibility study should contain, and can also be helpful in the preparation of the Project Concept Note, as it provides methodological guidance on key aspects of project development.

[4] The conversion of project costs from denars to euros should be according to the average exchange rate of the National Bank of the Republic of North Macedonia on the last day of the month preceding the month in which the Project Concept Form is submitted.

[5] The Pre-Feasibility Study and the Pre-Feasibility Study Summary are mandatory if the project is identified during the CMP preparation phase as having the potential to be implemented through the establishment of a PPP.

[6] In many countries, pre-feasibility studies are optional, but in large projects, a pre-feasibility study helps decision-makers choose which of the possible technical solutions will be developed in the feasibility study.

These thresholds are established to ensure that low-value projects are not unnecessarily burdened with the obligation to prepare feasibility studies (FS). Instead, low-value projects are subject to a preliminary assessment based on a Project Concept Note, which is in turn subject to internal review and approval. However, the FAP must be submitted to the MoF after the project proponent has approved the document, as a new initiative, in accordance with the guidelines for the preparation of the Fiscal Strategy and the State Budget, i.e. the municipal budget, as prescribed in the Law on Budgets.

2. Identification and preliminary screening of projects

This Chapter addresses the initial phase of the PII process and includes the identification and preliminary screening of project proposals presented as potential projects. In order to achieve consistency and improve quality, the presentation of project proposals has been standardized in the model Project Concept Form, annexed to the PII Regulation.

2.1. Project identification

The need for a new investment project can be identified in different ways:

- a national strategy, which defines the country's development priorities.
  Government programs or annual work plans can also serve
  as an important source of project concepts.
- sector strategic plans, which identify priority areas for public investment, and thus provide a framework for identifying

  projects.
- certain projects become necessary as a result of compliance with
  legal regulations, such as environmental protection regulations or safety regulations. Projects arising from legal obligations are often of high priority for implementation, provided that they are of high quality.

  ready.
- Asset registers or other asset management systems, if they exist, provide insight into the condition and remaining life of specific assets, such as buildings or equipment. They also help identify assets that need to be replaced or renewed in the near future.

  future.
- the participation of relevant stakeholders, including local communities, in the process of identifying new ideas for public investments, as well
  thus, it is a justified approach, only if it is implemented through
  structured consultation process.
- emergencies, consequences of natural or other disasters resulting in

need for certain capital investments.[7]

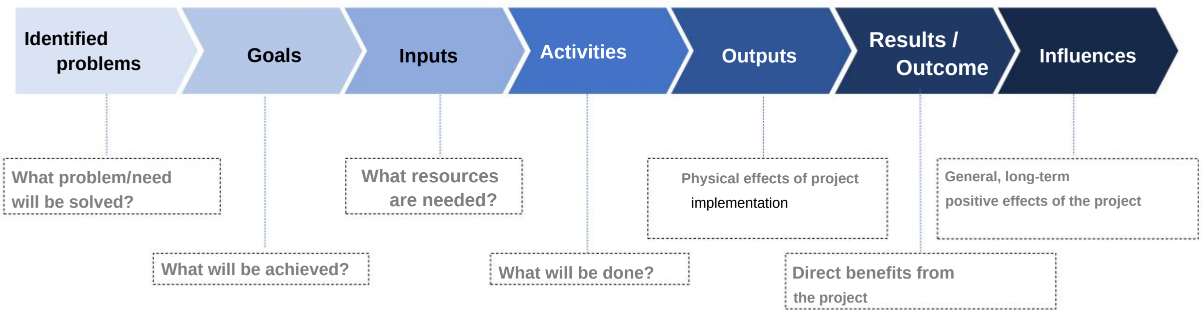
When identifying the need for a new investment, project initiators should approach it and consider not only the main problem, but also its causes and consequences, as well as what would happen if the problem is not solved.

The project should be aimed at solving the causes of the problem, and it is important to understand that the problem is not the lack of infrastructure or its physical condition, but, above all, the insufficient availability or poor quality of public services. It is also important to consider different possible ways to solve the problem, including those that do not require

investment investments.

The project objectives should not be focused solely on building infrastructure, but on achieving concrete benefits for the target beneficiaries by solving the identified main problem/need. The project initiator can use the concept of a logical sequence, which allows a clear presentation of the expected results and effects of the project.

Figure 2: Logical sequence



Source: Authors

The main document required in the project identification phase is **the Project Concept Form (PCF).** Its main objective is to improve the quality of public investments in North Macedonia by introducing a system for preliminary screening of projects. In this way, the first step in quality control within the public investment management system is established. PCF aims to improve the quality of projects by standardizing the way information is presented by project initiators and enabling their detailed verification. As part of this process, project initiators are required to fill in the PCF for each project proposal, thus providing a single entry point for all project ideas, regardless of their size, type or implementation method.

Once the project idea has been identified, the project concept is developed. This includes defining the key problems, determining the logic of intervention to solve a particular problem or need,

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[7] The PIA Regulation provides for exceptions to its application for the approval of emergency projects. For For more details, see Article 3 of the Regulation on the Public Insurance Institution.

ensuring compliance with strategic plans and legal requirements, as well as conducting a preliminary risk assessment. This phase also reviews alternative solutions and prepares a concise project concept template that helps in making a decision on whether to proceed with detailed project preparation or not. In addition, this phase also represents an excellent opportunity

to assess the project's impact on climate change and its exposure to climate change risks. Thus, the importance of climate change is clearly taken into account both in the design and in the guidelines for the preparation of the Project Concept Note. In the phase of preparing the project concept note, project promoters can use the European Commission's *"Technical guidance on climate proofing of infrastructure" 8* as part of the initial risk assessment.

from climate change.

Detailed instructions for completing the OKP are provided in the OKP model, annexed to the Regulation on the Public Revenue Office. For each section or field in the OKP, a description of the required information and clear instructions for completing it are provided. It is recommended to carefully read all notes and explanations before starting to fill in the OKP.

Before submitting the OCP to the Ministry of Finance, all new project ideas must undergo an internal review process within the relevant institution. The purpose of this review is not only to ensure the completeness and overall quality of the data, but also to avoid common errors or omissions that could lead to the rejection or return of the project. Therefore, all sectors and public entities within the project proponents must prepare their projects in the OCP model and submit them to the competent minister/head of the main budget user9 for initial review and approval. The minister may choose to authorize a senior official or advisor to conduct an internal quality review of all new project proposals before signing and officially submitting the OCP.

In the case of small-value projects (below 5 million euros), the internal review of the OKM is considered a sufficient basis for submitting a request for funding as stipulated in the Budget Law.10

The OCP can be submitted exclusively by the project proponent and should be signed by the minister/head responsible for the public entity proposing the project.
Projects can be initiated by any public entities in accordance with the Budget Law.

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[8] *Technical guidance on the climate proofing of infrastructure in the period 2021-2027,* European Commission, 2021

[9] This approach will be implemented by applying the new budget classifications in accordance with the Law on Budgets, published in the "Official Gazette of the Republic of North Macedonia", No. 203, dated September 19, 2022. year, and subsequent amendments and supplements.

[10] Law on Budgets, published in the "Official Gazette of the Republic of North Macedonia", No. 203, of 19 September 2022, and subsequent amendments and supplements.

If the OCP is not signed, the project proposal will be deemed not to have been approved by the Minister/Manager, and the OCP will therefore be invalid and will be returned without consideration.

The OCP should serve as an instrument for the initial assessment of all new project proposals, regardless of their potential source of funding. This approach is recommended for several important and justified reasons:

- The government must have a comprehensive overview of all activities that contribute to economic and social development in order to ensure efficient coordination, planning and proper timing of their implementation.
- While the capital costs of a project are often financed from external sources, the long-term operating and maintenance costs are usually covered by the state or municipal budget. It is crucial that these long-term costs are taken into account in the budget preparation and decision-making process prior to project approval.
- Many external sources of financing imply specific obligations, such as debt repayment or contingent liabilities under guarantees or similar instruments. The Ministry of Finance must be fully aware of all commitments undertaken before their formal acceptance in order to ensure that financial resources are available to meet/service them.

Box 1: Considering the impact of climate change at the project identification stage

Project promoters should integrate climate change impacts into the project preparation process from the outset. This includes analysing the relevant regulatory framework for the project and ensuring compliance with land use plans, zoning regulations and applicable building standards. Project promoters should also ensure that the proposed

investments are in line with national strategies and policies that are related to climate change.

At this stage, it is necessary to qualitatively present ***the impact of the project on climate change*** *(i.e. whether it contributes to an increase or decrease in greenhouse gas emissions), and if a significant impact is determined, it will be necessary to conduct a quantitative analysis in the assessment phase.*

project assessment.

A key aspect of this phase is also ***the preliminary analysis of climate change-related risks.*** *Project proponents should assess whether the planned infrastructure will be vulnerable to risks caused by climate change, both currently and in the future. Various sources, both international and national, can be used to identify the main potential threats. If any risks related to climate change are identified,* *climate change, appropriate adaptation measures should be considered and included in the OCP.*

By including these aspects at an early stage, project initiators can contribute to the development of sustainable and adaptable infrastructure, which will be in line with environmental goals and will ensure long-term economic viability.

2.2. Preliminary screening of projects

The standardized OCP also serves as a tool for conducting initial Project proposal screening, often known as "preliminary project screening." Preliminary project screening is a key moment in the decision-making process that determines the fate of an initial project proposal, which could lead to either its **rejection** or the opening of an opportunity for its **further development** and preparation for implementation.

Early rejection of unviable or unsuitable project proposal ideas carries a series of advantages, because:

- Prevents the allocation of funds and the engagement of human resources to prepare feasibility studies for projects that have no potential for future funding. This minimizes wasted time and effort and reduces budgetary pressures, while ensuring a sustainable project portfolio.

- Project proponents are enabled to assess the feasibility of the project proposal in terms of the project's necessity, risk factors and its sustainability. Well-designed project proposals contribute to their efficient implementation during the implementation phase.

- contributes to the prevention of long-term problems during the infrastructure management phase, which could negatively affect both users and the competent authority, requiring costly corrective measures.

Therefore, even if a project proposal is rejected, it should not be considered a waste of resources. The aim of this process is to exclude from further evaluation projects:

- which are not necessary or are not in accordance with the proposer's scope of work on a project;
- which are not clearly explained or for which there is no justification;
- which are in conflict with government or sector priorities;
- whose feasibility (whether from a technical or financial point of view) is unlikely;
- that carry unacceptable risks or indicate insufficient capacity for

their implementation and management;

- for which the availability of funds is unlikely, taking into account projections for available budgetary funds.

All investment projects, regardless of their size, must go through the same preliminary screening process. Making a positive decision during the initial phase depends on confirming the relevance of the project proposal in terms of strategic policies, its justification, the existence of a real need

of it and the feasibility of its objectives, in a manner satisfactory to the OKP evaluators. It is also necessary to provide a reasoned explanation for the expenditures, regardless of whether it is a matter of financing a small-value project or forwarding larger efforts for further planning and evaluation.

Box 2: Considering the impact of climate change at the preliminary screening stage

One reason for conducting preliminary screening is to reject project proposals that are inconsistent with climate change policies or that impose unreasonably high costs for ensuring resilience to climate-related disasters. Decision-makers should eliminate project ideas that are inconsistent with decarbonization policies, international commitments, or in cases where adaptation to severe climate-related disasters is unlikely or financially unviable.

For larger projects (with a total cost of €5 million or more), the CMP should be seen as a tool for identifying potential project ideas. By receiving “approval” at this stage, projects proceed to the next stages of planning, preparation and appraisal, in which all the necessary information is presented in detail. **For medium- or large-value projects, the CMP is the first step in the entire process.**

of quality management in the later stages of the PIU process.

The CPF, which is submitted to the Ministry of Finance, is first subject to an administrative check to determine that all sections of the Project Concept Form are properly and properly completed. The completion of all sections/fields

in the Project Concept Form is mandatory, and if any section/field is not filled in or if there are incomplete answers, it will result in **the OKP being returned.**
for its complete completion.

After successfully completing the administrative review, the evaluators evaluate the OCP using the quality review criteria listed in the right-hand column of the Concept Note Form. These criteria are tailored for each individual section to ensure that the answers to the questions and the required information meet the required standards. Officials completing the Concept Note Form have access to the criteria for each section, and are thus provided with the same information and guidance as the assessors. Hence, it is in their interest to carefully monitor the criteria and guidelines to increase the chances of success of the project proposal.

To proceed to the next stage, a project proposal must receive a “satisfactory” rating for each assessment question in the Project Concept Form. Each question within the CPF is rated with one of three possible ratings:

"satisfactory", "unclear" or "unsatisfactory", and the grades are based solely on the criteria defined in the right column.

Evaluators summarize their evaluation in one of the following ways:

- **“approved”** – means that all assessment questions have been rated “satisfactory” and that the project can be included in the List of Project Proposal Ideas.
  However, even OCPs that have successfully passed the administrative and quality checks may be subject to fulfilling certain conditions, such as resolving issues related to land acquisition or initiating procedures for obtaining permits and consents.

- **“returned for revision”** – means that at least one evaluation question has been rated “unsatisfactory” or “unclear.” In that case, the OCP is returned to the project proponent, with specific guidelines for addressing the identified deficiencies in order to improve the quality of the project proposal.

After submitting the OCP, the PIU Sector sends a notification to the project proponents about the results of the review. This notification will provide clear guidance on the next steps. In cases where projects require the preparation of pre-feasibility or feasibility studies, the responsibility for preparing or conducting a procurement for their preparation lies with the project initiators and project proponents. Even when the document is prepared by the

external consultants, the project proponent is fully responsible for its quality.

In the event of a grade of "returned for revision", the PIU Sector will indicate the the necessary changes and will establish a specific timeframe within which the project proponent should submit the revised version of the CMP.

Box 3: Assessment of the potential for project implementation through the establishment of a PPP at the project identification stage

If the project proponent indicates that the project could potentially be implemented through the Public Private Partnership (PPP) model, after the Public Investment Promotion Agency (PIPA) has assessed the OCP with a “satisfactory” rating, the project proponent should submit the Form to the competent PPP authority to obtain an opinion on the eligibility of the project idea as a potential Public Private Partnership (PPP). After receiving the opinion from the competent PPP authority, the project proponent should forward such opinion to the MoF.

For each project idea that is assessed with a grade of "satisfactory" for all assessment questions, the PIU Sector, in cooperation with the competent sectors of the Ministry of Finance, also provides an opinion on the financial and fiscal aspects, potential sustainability and the feasibility of the project proposal.

The list of project proposal ideas that have passed the administrative and quality checks, together with the opinions of the MoF and the competent PPP authority, where applicable, are submitted to the inter-ministerial working group/committee (hereinafter: the Committee). The Committee then reviews whether the project proposal idea is in line with the government's objectives and priorities and decides on the approval or rejection of the project idea.

Project ideas that are approved by the Committee are entered into the List of Evaluated and Approved Project Proposal Ideas.

The roles and responsibilities in the project identification and preliminary screening phases are shown in the table below.

Table 3: Roles and responsibilities in the initial stages of the PIU process in North Macedonia

Participant	Activity
Project initiator	Prepares the Project Concept Form.
Project proponent	Accepts (rejects) the OCP and submits or resubmits the OCP to the PIU Sector. Obtains an opinion from the competent PPP authority if the project is considered a potential PPP.
Department for UJI (MF)	Reviews the OCPs and prepares recommendations regarding further development of the project.
Competent authority for PPP	Provides an opinion on the implementation of the project as a potential PPP
Interdepartmental working group/committee	Decides on approval or rejection of the project idea.

Source: Authors

3. Formal project assessment and independent review

3.1. Project assessment

Medium and large value projects that have passed the preliminary screening are subject to an assessment of their cost-effectiveness, which requires a feasibility analysis. The purpose of this analysis is to answer the key question of whether the entity responsible for the investment proposal should proceed with the project once it has been determined that it is in line with government priorities. This process requires a defined set of project preparation steps, such as pre-feasibility and feasibility studies (including a conceptual design and an environmental and social impact assessment), which must be completed and independently evaluated before the project can be approved for financing, prioritized and selected for financing.

Once the project has passed the initial screening, it is important to assess the to include aspects related to climate change and decarbonization in the project by evaluating the potential of the project to positively contribute to climate change mitigation and decarbonization, as well as through

analyzing the project's vulnerability to climate change and the risks associated with climate change. As the effects of climate change become increasingly manifest themselves more intensely in various forms, projects may face unforeseen challenges and risks. Accordingly, when implementing a comprehensive The assessment must take into account how the effects of climate change, such as extreme weather events or changes in climate conditions, may affect the success and sustainability of the project. This proactive approach allows

implementing adaptation measures and preparing projects that are not only resilient to current climate conditions, but are also adaptable to future climate uncertainties. The guidelines for the preparation of a feasibility study elaborate on climate change issues in detail in order to enable

assessment of projects based on smart solutions for climate change resilience.

Box 4: Pre-feasibility vs. feasibility study

The pre-feasibility study is optional for high-value projects (with total costs exceeding EUR 15 million); however, the final decision on the project's viability and its selection and prioritization will be based on the feasibility study. However, the pre-feasibility study is mandatory for projects that have been identified during the preparation of the CMP as having the potential to be implemented through the establishment of a

PPP.

The main difference between a pre-feasibility study and a feasibility study is that a pre-feasibility study is mainly based on secondary sources of data, rather than primary sources. Also, the number of options considered in the early phase is greater, and only those options that are worth further consideration proceed to the next phase, i.e. the preparation of a full feasibility study.

Project appraisal is a key phase in the development and evaluation of project proposals. The main objective of the appraisal is to examine in detail the various aspects that could have a significant impact on the project outcomes. While issues related to policy alignment, basic needs assessment and preliminary options analysis should have already been addressed in the project identification phase, they need to be analysed in more detail and comprehensively at this stage. New issues also emerge that require more comprehensive analysis. Among them, the following issues take centre stage due to their key role in shaping the project:

- *Need for the project:* What is the need for the specific project? What problem is it trying to solve and to what extent can it contribute to solving it?

the problem?

- *Objectives:* What are the main goals of the project? How will its success be measured?
- *Options:* Are there alternative ways to solve the identified problem and achieve the project objectives? Are they feasible from a technical, financial, environmental and social perspective?
- *Initial costs:* How much funding is needed to implement each option?
- *Operating costs:* What are the long-term costs of maintaining the the functionality of the project?
- *Benefits:* What positive effects can be expected and to what extent?
- *Risks:* What are the potential risks or uncertainties associated with the best option for implementing the project? How will they be managed?
- *Impact on social aspects and the environment:* How will the project affect citizens and the environment?
- *Climate change:* How will the project impact climate change and how will it address aspects related to climate challenges, including reducing greenhouse gas emissions and adapting to climate change challenges?
- *Project Timeframe:* What is the expected duration of the project from the planning phase to its completion?
- *Cost-benefit analysis:* Are the expected economic benefits greater than the total project costs?
- *Optimal option:* Which option seems most appropriate taking into account technical, financial, environmental, social aspects?
- *Implementation:* What is the most effective approach to implementing the project?
- *Project implementation capacity:* Does the project proponent have a plan and a designated team to implement the project? Does the team possess the necessary skills or will it be necessary to engage additional professional support?

The primary outcome of the project assessment is the feasibility study, the preparation of which is the joint responsibility of the project initiator and proponent. Although Project proponents may engage external experts to support the preparation of the document, however, the project owner has a key role in providing accurate data on the feasibility of the project. Project proponents are responsible for organizing the financing for the (pre)feasibility study and conducting the procurement necessary for the preparation of the study. The role of the external experts is to provide support to the project initiator and to prepare the feasibility study. The model of the (pre)feasibility study document should contain the following chapters:

1. Project summary and feasibility conclusions

This Chapter provides a brief presentation of the project, along with an overview of the main components, main objectives and purpose in relation to the identified needs. It also includes a detailed evaluation of the overall

feasibility of the project, as well as a brief summary of key findings and conclusions.

2. Analysis of the existing context

This Chapter provides an analysis of the broader context, covering social and economic aspects and the relevant institutional framework. This analysis aims to
in order to provide insight into the project's compliance with the regulatory framework and international obligations, as well as with EU development goals and national strategies and
policies.

3. Project needs and goals

This Chapter should focus on identifying the needs of the project and establishing clearly defined objectives that can be quantitatively measured. It lays the foundation for understanding the goals that are being sought to be achieved by

the project.

4. Demand analysis

This Chapter conducts a comprehensive analysis of the demand for the products and services to be provided by the project. The factors influencing demand, as well as potential market fluctuations, should be analyzed in order to

make sound decisions.

5. Options analysis

The chapter on options analysis analyzes and compares different approaches and strategies for achieving the project objectives. It will enable a thorough analysis of alternative ways to achieve success. Each option should be assessed, first of all, from a technical, financial, economic and environmental perspective.

6. Technical studies

This Chapter covers the analysis of the technical aspects of the project, including
field research, spatial planning issues, land acquisition processes, and elements of a preliminary technical design.

7. Financial costs of the project and time plan for project implementation

This Chapter should present detailed estimates of the financial resources required for the development of the project and provide a timeline for the implementation of the project, providing a comprehensive financial overview and implementation plan.
the project.

8. Financial analysis

This Chapter will explain the methods of financial analysis and the basic assumptions. It will examine in detail the cost estimate, revenue projections, sources of financing, availability of funds for the project and the financial cash flow analysis. This Chapter presents the FNSV and FISP.

9. Economic analysis

This Chapter will review the methods and assumptions used to conduct the economic analysis. It assesses the economic feasibility of the project, through an analysis of costs, benefits and non-monetary impacts, including environmental and social aspects. The results expressed as ENVI and ENPI are summarized at the end of this Chapter.

10. Analysis of "value for money" for a potential PPP

This Chapter discusses the potential for implementing the project through the establishment of a public-private partnership, taking into account the financial and legal aspects, as well as the risk-sharing aspect.

11. Environmental and social impact

This Chapter evaluates the project's environmental and social impact, taking into account aspects such as climate change mitigation and adaptation, as well as social aspects, including

and gender equality-related analysis.

12. Implementation and operational sustainability

This Chapter will focus on the sustainability of the project during the implementation phase and the infrastructure management phase. An assessment will be made of the capacity of the entities responsible for project implementation and the project management arrangements.

13. Risk analysis and sensitivity analysis

The chapter on risk analysis and sensitivity analysis identifies the main sources of risk and proposes mitigation measures. It also evaluates the sensitivity of the project to external factors through sensitivity analysis and provides a comprehensive risk management plan, including disaster and climate change risks and mitigation measures.

14. Conclusions on the feasibility of the project

This Chapter presents the final conclusion on the feasibility of the project, taking into account the results of the cost-benefit analysis, the alignment with strategic priorities and all other key aspects, clearly stating whether

the implementation of the project is justified.

The above list of suggested chapters in the feasibility study document provides a structured framework for conducting a comprehensive assessment, while allowing for customization to the specific needs and objectives of the projects. The Guide

for the preparation of a feasibility study, published by the Ministry of Finance, contains detailed guidelines that project initiators/proponents should apply during the project appraisal phase when preparing (pre)feasibility studies.

Box 5: Considering the impact of climate change in the assessment phase the project

In the project appraisal phase, project initiators should analyze the climate change aspects of their projects in more detail. The feasibility study should answer the following questions:

1) What is the expected impact of the project on climate change (in terms of greenhouse gas emissions)?

2) Is the project consistent with national and/ or sectoral strategies and plans for decarbonization and climate change adaptation?

3) Does the conceptual solution include measures for climate change mitigation and adaptation?

4) Does the project demonstrate resilience to climate change under different climate change scenarios?

In order to provide comprehensive and precise answers, project initiators should re-examine what ***the project will be like on climate change,*** *i.e. whether it will contribute to an increase or decrease in greenhouse gas emissions. Also, if a significant increase/ decrease in greenhouse gas emissions is expected, such an increase/ decrease should be assessed by*

monetary aspect within the framework of economic analysis.

The results of the initial climate change risk analysis conducted during the preparation of the CMP should be re-evaluated during the project appraisal. If significant climate change risks are identified in the CMP or during the project appraisal, or if there are changes to the design, ***a more detailed climate change risk analysis*** should be conducted *during the preparation of the (pre)feasibility study. Project promoters should then consider adaptation options that will strengthen the project's resilience to climate change impacts, including emergencies and evolving disasters.*

Once all the necessary documentation is prepared, project initiators fill out the Feasibility Study Summary Form (FSSF), attached to the Regulation on the Public Investment Institutions. Both the feasibility study and the Feasibility Study Summary Form, after internal review and approval, are submitted to the Ministry of Finance.

Important note when conducting a procurement for the preparation of a (pre)feasibility study: In addition to the study document in Word which contains descriptions of all relevant analyses performed during the project appraisal, the bidder is expected to prepare and submit spreadsheets with financial and economic data (financial and economic analysis) which must be provided in .xlsx format (spreadsheets must have unlocked formula fields that allow monitoring of the accuracy of the calculations).

Box 6: Expiration of the validity of the feasibility study

Projects should be subject to further review if funding is not secured within three years of the completion of the feasibility study. Feasibility studies are valid for a limited period of time, given that they reflect current circumstances based on certain assumptions. As time passes, the quality and relevance of the information declines. After three years, data and assumptions regarding costs, benefits and risks may no longer be valid.

The revised feasibility study should confirm the accuracy of the projected capital and operating costs, as well as assess whether the project is still in line with government priorities. This is essential, as the absence of funding over a three-year period indicates a reduced urgency and priority for the project. The review should also confirm the feasibility of the implementation plan and update the assessment of risks associated with project implementation.

3.2. Independent review

The independent review ensures the quality and accuracy of the feasibility study through a thorough examination of its data, methodology, and conclusions.
The independent review must be conducted by an entity that has no vested interest in the outcome of the project, thus eliminating the possibility of a conflict of interest. It is important to note that the term “independent” does not imply complete separation from the Government.
Instead, it indicates that the assessment can be verified by a state entity that is external to the institution responsible for proposing the project. This distinction is crucial for ensuring the impartiality and credibility of the assessment process.

The responsibility for carrying out project appraisals in North Macedonia lies with the project proponents. After the appraisal has been completed, projects must undergo a process of “review” and thorough scrutiny conducted by an independent body, separate from the institution proposing and promoting the project. This practice is particularly important for larger projects, and the review should be carried out before the project is proposed as a new initiative to the competent ministry.
By submitting
By having projects undergo external review and analysis, conducted by an independent body, potential bias and deficiencies can be identified and addressed at an early stage of planning. This proactive approach contributes to increasing transparency, accountability and overall efficiency in project planning and implementation. The Public Investment Promotion Agency (PIPA) in the Ministry of Finance carries out independent

review of public investments in North Macedonia. In case of lack of capacity of the Sector to carry out an assessment of climate change or other aspects, it may engage external experts.

There are four valid reasons for conducting an independent feasibility review:
studies:

- *Speed at the expense of quality:* speed is often considered more important than quality, even when it means neglecting details and risks that could jeopardize the outcome/success of the project;

- *Difficulties in reviewing projects supported by management:* employees of a state institution proposing a project may face difficulties in reviewing projects that are supported by the top management of the institution concerned;

- *Human error:* even the most capable individuals can make mistakes, including mathematical errors, misinterpretation of input data, or simple typos, which can significantly impact the quality of

  the estimate;

- *Biased optimism:* in many countries and over time, there has been a tendency for project proponents to overestimate benefits and underestimate costs and risks in their proposals, leading to an exaggeration of the financial profitability and/or social cost-effectiveness of the investment.

  This tendency is known as "biased optimism." One of several mechanisms for mitigating it is to conduct an unbiased independent review.

It is important to note that without ensuring the reliability of the analysis and conclusions of the feasibility studies, there is a significant risk that funding decisions will be made on the wrong basis. Although this phase represents a second opportunity to reduce the number of project proposals entering the process

Prioritization and budgeting often involve costs associated with the preparation of feasibility studies, making it difficult to reject them. The main focus of this phase is on

thoroughly analyzing the details, checking for errors, miscalculations, as and ensuring that all costs, benefits and risks are carefully considered during the assessment phase.

It is essential to understand that the quality review carried out at this stage should not be equated with project selection. The final decision on which projects will be recommended for funding lies with the Government.

The PIU plays a key role in the independent review and assessment process of projects. It reviews the (pre)feasibility study and the Project Summary Form (PSF), after which it makes one of the following initial decisions for the project: approved and returned for revision.

- **"approved"** - means that the (pre)feasibility study meets the required criteria and standards, and the assessment questions in the ORFS have been assessed with a grade of "satisfactory" and the PIU Sector has no comments on either the ORFS or the feasibility study.

- **"returned for revision" (additional clarifications required)** - means that additional information is needed in the ORFS or feasibility study or both documents, as well as improvements to the ORFS or feasibility study or both documents. In that case, the ORFS or feasibility study is returned to the project proponent, with specific guidelines for resolving the identified problems/shortcomings in order to improve the quality of project proposal.

During the independent review process, the PIU Department may also request additional documentation to demonstrate the maturity of the project, such as technical and planning documentation, environmental impact assessment, etc.

depending on the nature of the project.

If the PIU Sector gives a positive assessment of the feasibility study and the ORFS, the project is further assessed according to the scoring criteria.11 The scoring results, together with the opinion of the MoF on the financial aspects, potential sustainability and feasibility of the project proposals, are submitted to the Committee.

Projects for which a feasibility study has been prepared go through the same procedure, with the scoring being carried out exclusively for projects with feasibility studies, after they have received a positive quality assessment. Projects with pre-feasibility studies approved by the Government remain in the assessment phase. In the next phase, project initiators must prepare a full feasibility study and submit it, together with the ORFS, to the Ministry of Finance.

Box 7: Projects with potential for implementation through the establishment of PPPs in the development phase assessment

Pre-feasibility studies for projects identified as potential PPPs during the preparation phase of the CMP and for which it has been determined that such an implementation model is appropriate for the project proposal, must be accompanied by an opinion from the competent PPP authority. Once the pre-feasibility study and the ORFS have been assessed as "satisfactory", the project proponent should submit them to the competent PPP authority for an opinion on the suitability of the project proposal as a potential PPP. After receiving the opinion from the competent PPP authority, the project proponent should forward such opinion to the MoF. If the Government approves the project as a potential PPP, its further development is subject to the procedure set out in the PPP regulations.

[11] The scoring and prioritization approach is described in the next Chapter.

Table 4: Roles and responsibilities in the project appraisal phase and the independent evaluation phase review

Who	What
Project initiator	Organizes the financing of the (pre)feasibility study and carries out the procurement necessary for its preparation on studies. Completes or revises the (pre)feasibility study summary form.
Project proponent	Accepts (rejects) the (pre)feasibility study, together with the (pre)feasibility study summary form, and submits or resubmits it to the PIU Sector.
Department for UJI (MF)	Performs quality checks on (pre)feasibility studies and Feasibility Study Summary Forms. After giving a positive assessment of the quality, it assigns points in accordance with the scoring criteria (only for projects with feasibility studies). In cooperation with other sectors of the Ministry of Finance, it submits recommendations/ opinions on aspects, potential sustainability and feasibility financial of project proposals to the Committee.
Competent authority for PPP	Provides an opinion on the suitability of a project proposal to be implemented through the establishment of a PPP.

Source: Authors

4. Prioritization and selection

Prioritization and selection are key steps in allocating public funds to projects. They ensure that investments are targeted to projects that are in line with government objectives and ensure responsible management of financial resources. Transparency and consistent application of these processes are crucial for the efficient and responsible use of public funds.

4.1. Selection

Selection is a decision to proceed with a project proposal, but does not imply a commitment to finance it, nor a final decision to implement it. The decision to finance the project is made through the capital budgeting process. Selection is also a form of prioritization to the extent that it reduces the number of projects considered that have been shown to represent a potentially efficient use of public funds; as such, selection is one of the filters in the early stages of the PIA process.

In the PII system in North Macedonia, the selection process includes an evaluation of project proposals based on feasibility studies, ORFS and the other documentation (if appropriate) carried out by the Public Revenue Office of the Ministry of Finance. The PIU Sector compiles the List of Proposed, Reviewed and Evaluated Public Investment Project Proposals, which includes projects with assigned points and recommendations of the PIU Sector. The List is then submitted to the Committee for review and prioritization purposes. Following this step, the List of Accepted and Ranked Project Proposals is compiled, which is subject to final approval by the Government. The List of Accepted and Ranked Project Proposals approved by the Government becomes the Final Priority List of Public Investment Project Proposals.

4.2. Determining priority

Although the capital budgeting process should be the ultimate mechanism for determining priorities, there is some benefit in assigning priority to projects that are selected, given that not all selected projects can be financed within the available budget.

Prioritization is a systematic approach through which the Government evaluates and ranks project proposals based on predefined criteria, ultimately resulting in rational funding decisions. This includes

an assessment of projects that have been previously quality-assured, based on criteria aligned with government objectives. The result of this process is a ranked list of projects, often called a “priority list”, which forms the basis for funding decisions. In this way, prioritization ensures that limited public funds are allocated to projects that contribute most to the public interest, while maintaining transparency and accountability in the allocation of public funds.

The scoring criteria are determined by the Government. In accordance with the Regulation on the Public Investment Institution, the criteria will include at least the following aspects: the priority of the project for the proposer, strategic relevance, economic viability, availability of additional funding, climate change resilience and the impact of the project on climate change.

As explained in the previous chapter, the scoring is carried out by the PIU Sector, following a positive assessment of the quality of the ORFS and the feasibility study. The points awarded are the basis for the final assessment of the project and its ranking in the Final Priority List. However, the ranking of projects may be changed by the Committee, and ultimately by the Government.

Prioritization focuses on the evaluation of new project proposals, in line with the principles of efficient medium-term budgetary frameworks. These frameworks distinguish between core expenditures, which relate to ongoing budget activities, and funds allocated to new initiatives.

4.3. Roles and responsibilities in the selection process and in the recruitment process prioritization

Table 5: Roles and responsibilities in the selection phase and in the prioritization phase

Who	What
Department for UJI (MF)	Assigns points to projects based on criteria for determining priority.
Interdepartmental working group/ committee	It reviews the project proposals, the recommendations made and the scores awarded by the Public Investment Institutions Sector, determines the priority for funding by ranking the project proposals, taking into account the scores awarded by the Public Investment Institutions Sector and the goals and priorities of the Government of the Republic of North Macedonia, and prepares the List of Accepted and Ranked Project Proposals.
Working group/committee of the municipality	Assigns points to projects based on criteria for determining priorities and making recommendations. Determines the priority for funding by ranking the project proposals, taking into account the goals and priorities of the municipality, and prepares the List of Accepted and Ranked Project Proposals.
Government/Municipal Council	It makes the final decision on ranking the projects in accordance with the goals and priorities of the Government, i.e. the municipality. Approves the Final Priority List of Public Investment Project Proposals. Makes the final decision to approve or reject project proposals; confirms the eligibility of the project for implementation through the establishment of a PPP.

Source: Authors

5. Implementation, monitoring and reporting on implementation and evaluation post review of projects

5.1. Relationship with capital budgeting

The budgeting process is regulated by separate laws and procedures; hence, it is beyond the scope of this Manual. However, several key issues are discussed below that may help project proponents better understand the relationship between this process and the PIU procedure.

Projects approved by the Government and included in the Final Priority List can then be included in the budget requests prepared by the competent main budget users or in the investment programs of public entities that are not budget users. When submitting funding requests, the ranking of the project should be taken into account, in accordance with the budget calendar established in the Law on Budgets and the guidelines of the Ministry of Finance submitted to the budget users.
users.

However, there are two types of investment projects that, in principle, should have priority when preparing the budget request, before selecting projects from the Final Priority List, based on their position on the ranking list.

First, it is necessary to make a clear distinction between **ongoing projects** and new initiatives, in line with the principles of efficient medium-term budgetary frameworks.
These frameworks distinguish between core expenditures, which relate to ongoing budget activities, and funds allocated for new initiatives. The first steps in budget preparation aim to allocate funds to service existing commitments from ongoing projects, as well as to make overdue payments. Given that ongoing projects are already

have gone through the prioritization process during their budget inclusion, their priority is not re-determined each year. Instead, the emphasis is on supporting their efficient and timely implementation by removing implementation bottlenecks and ensuring a stable and predictable flow of funding. Hence, the fiscal space remaining after servicing financial obligations for ongoing projects and any capital arrears represents the amount available for financing new projects. This prevents new and ongoing projects from “competing” for the same budget funds.

Accordingly, projects that are already underway should have priority in the allocation of annual funding over the introduction of new projects. The aim is to ensure efficient and successful completion of projects. However, it may be
make exceptions in cases where ongoing projects encounter significant challenges that require corrective actions or adjustments. This approach ensures responsible use of investment funds, while also allowing flexibility to address specific challenges, when needed.

Also, another group of projects with special priority may consist of **projects which are mandatory under national or sectoral laws, regulations or international agreements.** These projects are given special priority to ensure compliance with legal requirements. For example, if there are national laws or international agreements that aim to protect endangered species or preserve key ecosystems, projects to establish protected areas, restore habitats and protect flora and fauna may be considered a legal obligation.

However, it is important to emphasize that all new projects, whether legally required or not, should begin the PIU process with a Project Concept Form (PCF) and follow the prescribed steps in accordance with the relevant rules and standards. Also, the projects that are defined in Contracts with donor partners, which are subject to strict quality checks in accordance with clearly defined procedures, may be given a priority similar to that of projects that are mandatory by law. This is because such projects are often part of bilateral or multilateral agreements, which make them legally binding obligations.

5.2. Implementation, monitoring and reporting on the realization of the projects

After securing financing for the project, the responsibility for its implementation rests with the project initiator. He is not only responsible for implementing the project, but also for closely monitoring its financial and physical progress during the implementation phase. Such dual monitoring

ensures that the project is progressing according to plan and is in line with the anticipated budget and timelines.

After receiving a positive decision to finance the project, the project initiator should submit a project implementation plan to the Ministry of Finance. This plan should be in accordance with the implementation plan presented in the feasibility study, which was prepared during the project development phase.

It is also recommended that the plan include a risk management strategy, particularly in the context of potential climate change impacts. This involves managing previously identified and assessed risks that may affect the successful implementation of the project and implementing procedures for

risk management during its implementation.

As part of the continuous monitoring, project initiators should submit quarterly progress reports to the MoF. These reports are important for maintaining transparency and accountability. The reports should provide a comprehensive overview of the status of the project, detailing the achieved phases and objectives, how much funds have been spent, any deviations from the original plan, as well as an analysis of the challenges faced by the project. The monitoring report template is provided in the Annex to the Regulation on the Public Investment Institutions.

These reports must be submitted according to a defined schedule, so each report should be submitted no later than 15 days after the end of each quarter.
This reporting dynamic allows the Ministry of Finance regularly and timely monitor the status of the project and take appropriate measures if a problem arises. Based on the progress reports, the MoF will prepare a semi-annual summary report on the progress of project implementation, which is then submitted to the inter-ministerial working group/committee and to the Government.

Requirements for regular monitoring and periodic reporting allow the Government and the institutions that finance projects to be constantly informed about their progress, contributing to increased transparency and accountability, as well as for timely interventions, if necessary, to ensure successful implementation of projects.

The Ministry of Finance (PII Sector) is responsible for reviewing the information submitted by the relevant entities and should request additional information and a corrective action plan in case of deviations greater than 20% (cumulatively, whether for the total duration of the project

or costs) in relation to the initial plan. In such cases, the MoF informs the Government, which then reviews the information received from the PIU Sector. On this basis, the Government may request the entity concerned to submit additional information and/or may decide to correct, postpone or terminate the project.

5.3. Ex post review

The ex post review process begins after the completion of project implementation. This process, in its basic form, involves the preparation of a final project report, which contains a complete overview of its implementation.

The final project report should contain the following elements:

- project name;
- project overview: summary of objectives, scope, budget, timeline and key stages of implementation;
- achieved results: assessment of results;
- budget and timeline: analysis of actual costs and the timeline in relation of the initial budget and the time plan;
- lessons learned: a review of successes, challenges and recommendations for improvement;
- appendices: additional materials that provide broader context and details.

This report represents the final step of the project documentation, providing insight into the results achieved by the project, lessons learned, and a comprehensive overview of the final results.

The report is submitted to the MoF after the completion of all construction works related to the project, for example, after the infrastructure management phase has started. It is recommended that the final project report be submitted no later than six months after the completion of the project implementation. The final project report is published on the website of the project initiator.

In accordance with the PIA process in North Macedonia, medium and large value projects are also subject to ex post evaluation, which is a more comprehensive form of ex post review than the final report. Its purpose is to assess whether the project objectives have been achieved. Ex post evaluation also

It also includes an analysis of the economic outcome of the project in relation to the results of the cost-benefit analysis, which is carried out during the project appraisal phase.

The Ministry of Finance will establish a special procedure for ex post evaluation.

The procedure will be complemented by clear methodological guidelines, considering that conducting a thorough ex post evaluation can be a complex task.

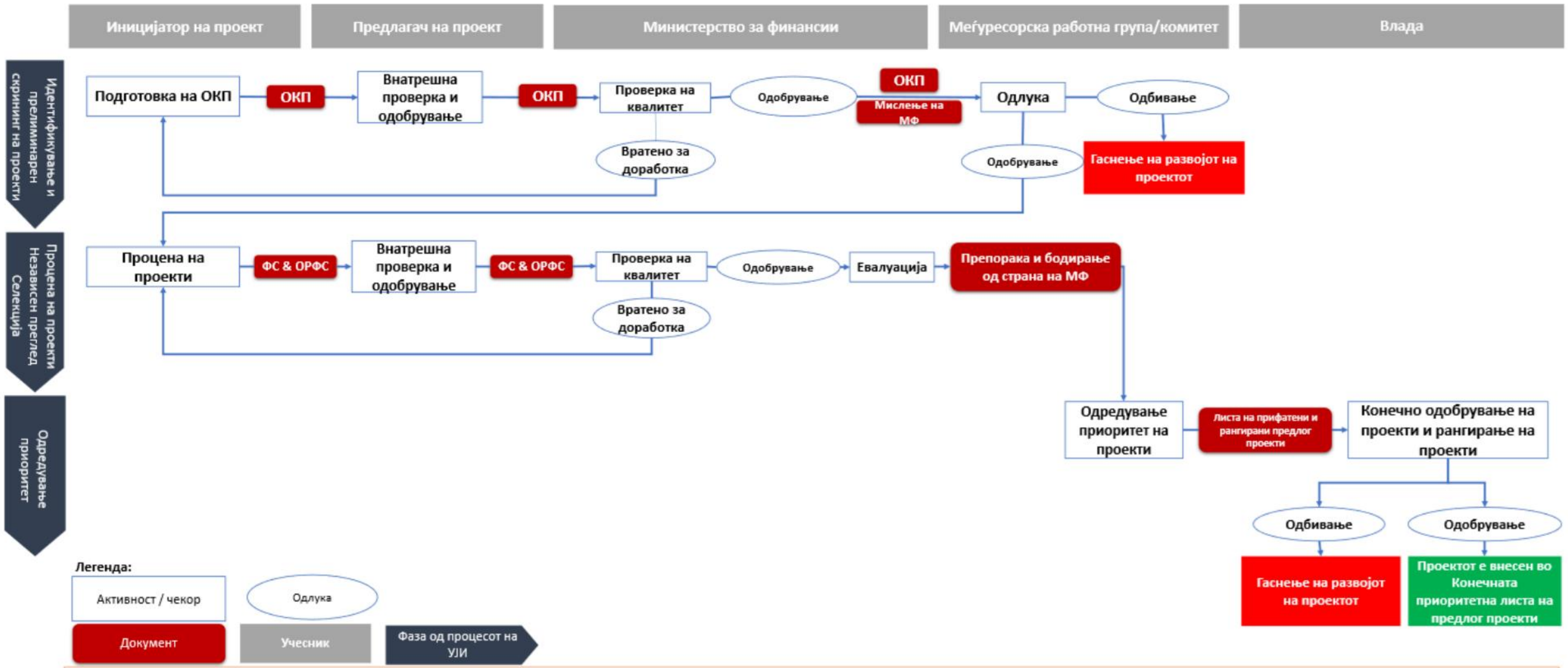
5.4. Roles and responsibilities in the implementation phase and in the implementation phase ex post review

Table 6: Roles and responsibilities in the implementation phase and in the ex post review phase

Who	What
Project initiator	Implements and monitors the project and prepares a monitoring report and a final project report. Prepares a proposal for corrective measures in case of deviation from the initial plan.
Department for UJI (MF)	It reviews the monitoring report and the final project report and informs the Government in case of serious deviations from the initial plan; it prepares a semi-annual summary report on the implementation of the projects and submits it to the interdepartmental working group/committee and to the Government.
Government	Makes a decision to correct, postpone or terminate the the project.

Source: Authors

Figure 3: Stages before project implementation in the PII process in North Macedonia



Напомени:

1. ФС – физибилити студија; ОРФС – Образец за резиме на физибилити студија.
2. На графиконот се прикажани фазите од процесот на УЈИ за проекти од средна и голема вредност предложени од страна на институциите на централната власт.
3. Во случај на проекти предложени од страна на општините, се применува истата постапка, меѓутоа, наместо меѓуресорската работна група, се формира работна група/комитет на општината, која врши евалуација, бодирање и рангирање на предлог проектите, а конечната одлука ја носи Советот на општината.
4. Доколку проектот е идентификуван како потенцијално јавно приватно партнерство, потребно е да се добие мислење од надлежниот орган за ЈПП и во фазата на прелиминарен скрининг и во фазата на процена на проектот во врска со подобноста на проектот да се спроведе преку воспоставување ЈПП.
5. Доколку се донесе одлука за подготовка на предфизибилити студија (задолжителна за проекти со потенцијал за ЈПП), се применуваат чекорите од фазата на процена на проектот. Меѓутоа, по одобрување на предлог проектот од страна на Владата, проектот не се внесува во Конечната приоритетна листа, туку се враќа во фазата на процена на проект за да се подготви целосна физибилити студија (за проекти со потенцијал за ЈПП, се спроведува постапка утврдена во законот со кој се регулира ЈПП).

Figure 4: Implementation monitoring and ex post review in the PIU process in North Macedonia

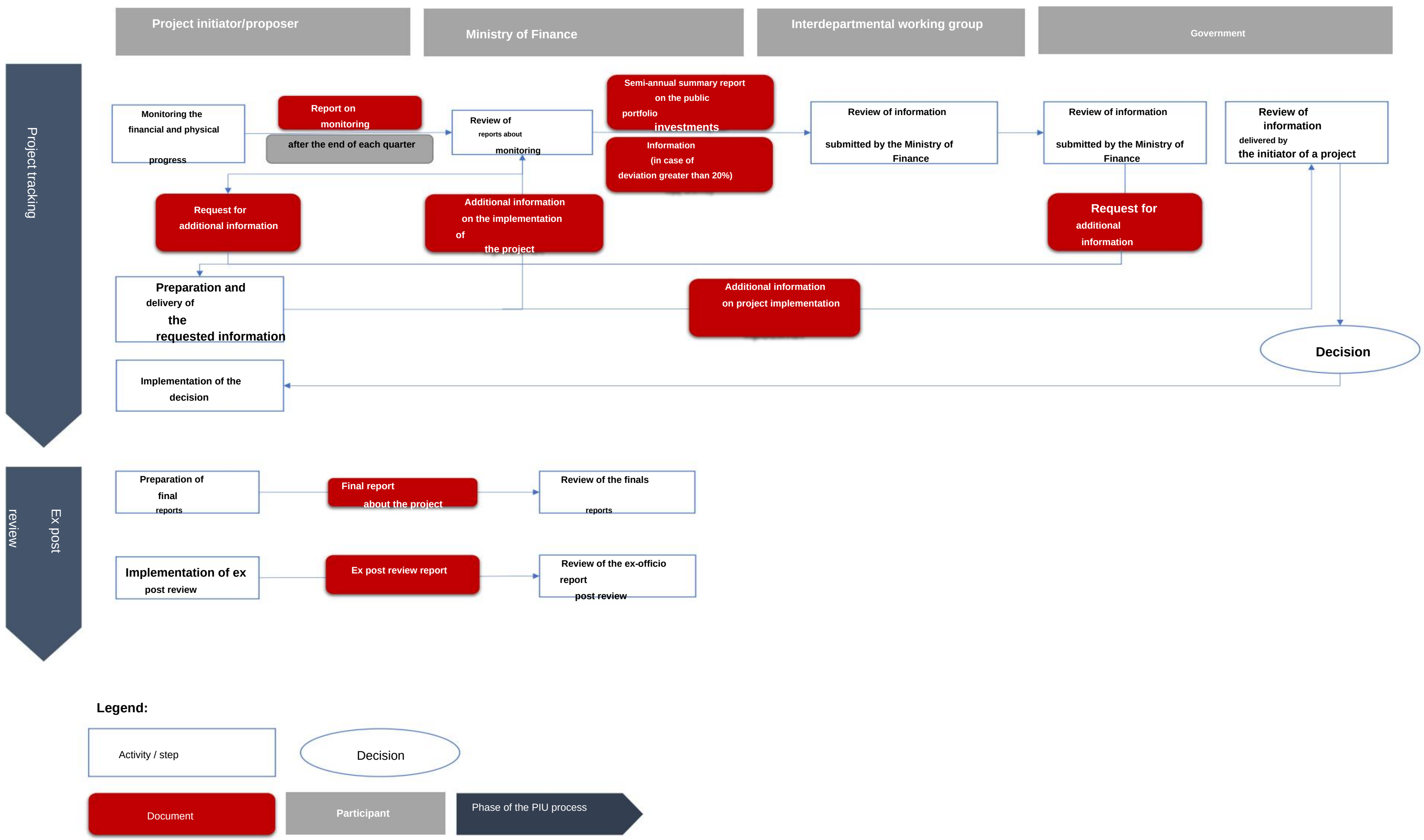


Table of abbreviations

Abbreviation	Meaning
UJI	Public Investment Management
MF	Ministry of Finance
PPP	Public Private Partnership
OKP	Project concept template
FS	Feasibility study
ORFS	Feasibility Study Summary Form
ENV	Economic net present value
ENPI	Economic internal rate of return
FNSV	Financial Net Present Value
FISP	Financial Internal Rate of Return