



Everyone's Smart
University

Project Feasibility Study

Lecture 3

PMG201

Policy Analysis

Learning outcomes

Policy Analysis

I . Policy Analysis System

II . Analysis by Evaluation Item

1. Balanced Regional Development
2. Consistency with Policy and Willingness to Pursue Projects
3. Risks in Pursuing Projects
4. Project-Specific Evaluation Items

Policy analysis

- **Policy analysis**

is a technique used in public administration to enable civil servants, activists, and others to examine and evaluate the available options to implement the goals of laws and elected officials. The process is also used in the administration of large organizations with complex policies. It has been defined as the process of "determining which of various policies will achieve a given set of goals in light of the relations between the policies and the goals"

Policy analysis

- **Policy analysis can be divided into two major fields:**
 - Analysis *of* existing policy, which is analytical and descriptive – it attempts to explain policies and their development
 - Analysis *for* new policy, which is prescriptive – it is involved with formulating policies and proposals (for example: to improve social welfare)

I . Policy Analysis System

- The analysis of preliminary feasibility studies entails economic feasibility analysis and policy analysis. Policy analysis includes elements that are not included in economic feasibility analysis but should be considered to evaluate the feasibility of projects.
- Economic feasibility analysis quantifies effects projects have on the national economy using the framework of cost-benefit analysis.

Policy Analysis System con.

- **Policy analysis is for elements that are among social benefits or costs resulting from projects, cannot be quantified by the framework of cost-benefit analysis, but should still be evaluated to determine whether to go ahead with the projects.**
- **For instance, to determine whether to carry out a project based on balanced regional development - for which there is a strong national consensus - the level of regional development, ripple effects on the regional economy, and such are analyzed.**

Evaluation in policy analysis

- **Evaluation in policy analysis is divided into basic evaluation items and project specific evaluation items depending on whether they can apply to any project subject to a preliminary feasibility study.**
- **Basic evaluation items are those that should be commonly included in the evaluation of any project subject to a preliminary feasibility study without regard to its characteristics.**

Evaluation in policy analysis cont.

- **Predefining basic evaluation items is especially important in that there are generally common matters to consider when inputting the already limited central government funds into projects subject to preliminary feasibility studies without regard to their characteristics, and there should be some modicum of uniformity among evaluation items to ensure consistency in the evaluation of different projects.**

Evaluation in policy analysis cont.

- At the step of preliminary feasibility study, considered as the 'basic evaluation items' of policy analysis, are the level of regional development and ripple effects on the regional economy for balanced regional development, consistency with relevant plans and policy directions, willingness to pursue and preference for projects, possibility of financing, environmental impact analysis, etc.
- Project-specific evaluation items are special items to consider in the evaluation of the concerned project. They can differ depending on the project type like national defense, culture, and urban development.

II . Analysis by Evaluation Item

- 1. Balanced Regional Development**
- 2. Consistency with Policy and Willingness to Pursue Projects**
- 3. Risks in Pursuing Projects**
- 4. Project-Specific Evaluation Items**

1. Balanced Regional Development

- When evaluating the feasibility of projects based only on the results of economic feasibility analysis that are represented as the B/C ratio at the step of preliminary feasibility study, imbalance among regions might become worse.
- This is because the least developed regions have less feasibility for projects under the structure of economic feasibility analysis. For instance, when evaluating the feasibility of a project to build a road in a less developed region, its economic feasibility is often low as the population and traffic volume are relatively low, with the result that there is little benefit of road construction.

Balanced Regional Development cont....

- Investment opportunities in such a region are, therefore, lower, and investments are concentrated on other regions where economic feasibility is high, which serves to exacerbate the disparity in development among them.
- To prevent this, preliminary feasibility studies consider balanced regional development, a higher-level government policy, to evaluate project feasibility. A regional development index was developed to reflect balanced regional development in evaluation, and a Multi-Regional Input-Output Model (MRIO) was developed to analyze the ripple effects of projects in regions.

Balanced Regional Development cont....

- The fundamental purpose of this analysis is to prevent regional imbalances from worsening by granting some kind of additional scores to government-financed projects in less developed regions and projects with significant ripple effects in such regions so that even projects with somewhat lower economic feasibility can be pursued.

Balanced Regional Development cont....

A. Level of Regional Development

- a. Calculation of the Regional Development Index under Current Preliminary Feasibility Studies*
- b. Current Indices for Determining Less Developed Regions and Their Change*

B. Ripple Effects on the Regional Economy

2. Consistency with Policy and Willingness to Pursue Projects

- A. Consistency with Relevant Plans and Policy Directions**
- B. B. Willingness to Pursue and Preference for Projects**
- C. C. Level of Preparedness of Projects**

Consistency with Relevant Plans and Policy Directions

- ✓ **For large-scale government-financed projects to be selected for preliminary feasibility studies, they undergo multiple steps of planning by the central government or local governments.**
- ✓ **How systematically a responsible party pursues a project can be evaluated until a concrete project plan is produced. Cases where a responsible party establishes a plan and pursues a project alone in a short time are exceptional. A series of preparations until a concrete project plan is produced is reflected in high-level or relevant plans.**
- ✓ **As such, analysis on whether the concerned project is reflected in high-level or relevant plans can help determine whether the project has been pursued consistently with government policy.**

- **A project's consistency with the policy direction of the competent ministry should be analyzed as well. Even when an explicit plan is in place, a policy goal set by the ministry is material to determining whether to push ahead with individual projects.**
- **On the contrary, the effectiveness of an existing long-term plan can decrease as the policy direction changes over time. In comprehensive consideration of this situation, consistency with relevant plans and policy directions is to be reviewed.**

B. Willingness to Pursue and Preference for Projects

- ☐ When determining whether to pursue a government-financed project, the attitude of the responsible ministry or local residents toward the project needs to be considered for the following reasons:
- ☐ All government-financed projects have a spatial location where they are implemented, and ripple effects from project implementation can vary due to geographical proximity. Even when a project is essential from the perspective of the central government, it may not be acceptable to local residents.
- ☐ On the contrary, even if it has been long hoped for by local residents, it may have a low priority to the central government, which has to conduct policy across the nation.

C. Level of Preparedness of Projects

- **The level of preparedness is about a project's concreteness. This concerns the level of detail of a project plan and the specific input of human and financial resources.**
- **In case of national road construction, once the decision is made to lay a specific section of a road, there is not much to change about the project and a regional construction management administration serves as a responsible party throughout the project.**
- **In such case, the level of preparedness may not be an important evaluation item. However, a concrete project plan is necessary in special projects like one for construction of a cultural facility.**

C. Level of Preparedness of Projects

- **A project plan needs to suggest the location of the project, its purpose, expected effects, strategy to pursue it, estimated project costs, ripple effects, etc. A higher level of preparedness can be interpreted as an indication that the purpose of a project and such are well aligned with policy and that the level of willingness to pursue is strong.**

3. Risks in Pursuing Projects

- **A. Possibility of Financing**
- **B. Environmental Nature**

A. Possibility of Financing

❖ Public projects are generally funded with public money, by issuing bonds or attracting private investment. When the government is able to and willing to provide sufficient funds, the responsible party is able to issue bonds in the market or a private party willing to participate in the project can be found, financing is not a significant concern. This is the case for most national road construction projects.

A. Possibility of Financing cot....

- ❖ For projects where local governments put up some of the necessary funds and projects that are partially or wholly financed by a private party, the possibility of financing should be closely reviewed to ascertain whether they can proceed as planned.**
- ❖ If projects impose significant financial strains on local governments in consideration of their fiscal condition, they can become delayed, suspended, or face other such problems. In PPP projects where the profitability is low, selecting a private investor and conducting negotiations can be time consuming.**
- ❖ Even in the case of projects funded by the government, the possibility of raising necessary funds should be confirmed if the project costs are much higher than the given budget.**

B. Environmental Nature

- **Environmental impact analysis roughly evaluates impact from project implementation. Environmental impact analysis does not have to be conducted for every project.**
- **In preliminary feasibility studies, environmental impact analysis is to ascertain in advance whether an environmental issue will occur in any step after preliminary feasibility studies and decide whether to pursue a project accordingly, and at the same time to raise the possibility of an environmental issue in the following steps and encourage more in-depth analysis.**

B. Environmental Nature cont.

- **For projects with potential environmental issues, the impact of project implementation is to be qualitatively and quantitatively evaluated through separate consultation with specialists, prior discussion, etc.**
- **Also, as mentioned above, the possibility of local civil complaints due to an environmental issue when the project is implemented should be analyzed not in the willingness to pursue and preference for projects' item, but in the 'environmental impact analysis' item.**

4. Project-Specific Evaluation Items

- **Unlike basic evaluation items, project-specific evaluation items are those that should be put into special consideration in the evaluation of projects.**
- **This renders defining and suggesting project-specific evaluation items in advance difficult. Nevertheless, categorizing project-specific evaluation items suggested in existing preliminary feasibility studies is helpful to select policy analysis items in future preliminary feasibility studies.**

4. Project-Specific Evaluation Items

- **As the existing guidelines adopted a structure of basic evaluation items vs. project-specific evaluation items, the project-specific evaluation items suggested in the existing preliminary feasibility studies include those that fall under the mid-level classifications like ‘balanced regional development,’ ‘consistency with policy and willingness to pursue projects,’ and ‘risk factors in pursuing projects.’**

