

12.2 Shadow Price

To assess the value of an imported item against the loss of foreign exchange from the central bank, the government sometimes multiplies the landed price of the item (in local currency) by some factor, commonly referred to as the shadow price.

If the shadow price is applicable, it may have to be used in the economic evaluation to adjust the cost of foreign exchange. This could alter the outcome of the analysis in favour of alternatives with higher local content.

12.3 Sensitivity

The entire economic analysis is based on various sets of assumptions, including the following:

- discount rate,
- average service life,
- study period,
- capital costs,
- operating costs,
- estimated income,
- residual values, and
- demand and traffic forecasts

It is important to know whether the analysis is particularly sensitive to errors in any of the major assumptions for each alternative. To find this out, vary each parameter independently by, say, 1 per cent; then review the corresponding percentage change in the outcome for each alternative. The figures produced are called sensitivity coefficients.

If error margins have been estimated for some items, sensitivity can be checked by examining the effect of the error extremes on the outcome of each alternative. Specifically, does the order of ranking the alternatives change? If it does, re-examine the probability that this degree of error will occur. If the accuracy cannot be improved, strong consideration should be given to the alternative with the most flexibility. (Flexibility is discussed in the next step of this guide.)

12.4 Funding Plans

A funding plan is a necessary input to, and consideration for, the feasibility study generally (see Figure 9.1). Normally both foreign exchange and local currency components will be needed to fund the project.

Sources of foreign exchange can include foreign aid agencies, development banks, and sometimes supplier credit (contractor financing).

From Canada, the Export Development Corporation (EDC) provides loans to finance Canadian products and services for international projects. The Canadian International Development Agency (CIDA) also provides funds for international projects, usually in the form of grants. CIDA also makes untied financial contributions to UN organizations and to international financial institutions for development. Information can be obtained from any Canadian High Commission or Canadian Embassy.

There are many development banks with world or regional mandates. Generally a development bank requires that certain evaluations be undertaken and certain information gathered during the feasibility study. And the bank may use the feasibility study to help appraise the project, assessing the eligibility of the project and the bank's interest in it.

The bank might also impose certain conditions on the project, such as the retention of consultants, training requirements, and competitive bidding, any or all of which could affect project planning and implementation.