

ASIAN DEVELOPMENT BANK

TAR: TRA 31427

TECHNICAL ASSISTANCE

FOR

STRENGTHENING OF CAPACITY IN

ECONOMIC ANALYSIS OF

HEALTH SECTOR PROJECTS IN DMCs

December 1997

ABBREVIATIONS

DMC	-	Developing Member Country
EDRC	-	Economics and Development Resource Center
OPO	-	Office of Pacific Operations
PPTA	-	Project Preparatory Technical Assistance
RETA	-	Regional Technical Assistance
TA	-	Technical Assistance

In this report, "\$" refers to US Dollars.

I. INTRODUCTION

1. In recent years, increasing attention has been paid to the development impact of the Bank's assistance to its developing member countries (DMCs). This has prompted various efforts within the Bank including comprehensive studies on improving project quality. The Report of the Task Force on Improving Project Quality observed that (i) there is insufficient institutional capacity for preparing and implementing high-quality projects in DMCs; and (ii) the governments sometimes lack a sense of ownership of projects because of their insufficient involvement in the project design; and because of inadequate financial and human resources. In addition, *Planning Directions 1998-2000* further emphasizes the need for improving project quality and on-the-ground significant impact of Bank assistance. Various steps have been considered to improve the effectiveness of the Bank's assistance at the project preparation stage as well as at the implementation stage. The strengthening of the economic analysis of projects is one such step that should be taken at the entry level.

2. The Bank's efforts in this regard include the issuance of the revised *Guidelines for the Economic Analysis of Projects*, 1997; and the implementation of RETA 5709: Training in Economic Analysis of Projects for DMCs. *Guidelines* (1997) provides a general methodology for the economic analysis of projects. Methodologies and handbooks are being developed to address sector-specific uniqueness and issues so that application of the *Guidelines* by DMC officials, consultants, and Bank staff would be facilitated with an easy-to-follow handbook with case studies and illustrations.¹

3. Several training workshops and one on-the-job training on the general guidelines have already been conducted for Bank staff by the Bank's Training Division. Under RETA 5709, two training workshops have already been conducted: one for DMC officials in the Central Asian Republics in Almaty, Kazakstan, 21-26 April 1997; and another for nine selected DMCs at Bank headquarters, 10-12 September 1997. Another workshop is ongoing in Viet Nam for DMC officials from Viet Nam, Cambodia and the Lao People's Democratic Republic.

4. There is increasing concern about the development impact of Bank-funded projects. Development impact is largely dependent on the quality of a project at the entry level. Capacity strengthening in the economic analysis of projects is one measure, that can contribute toward addressing this concern. In the health sector, postevaluation results indicate that about two thirds of the Bank-funded projects postevaluated so far have been rated "partially successful." Perhaps many problems could have been identified through rigorous economic analysis of the projects at the entry level.

5. This proposed Regional Technical Assistance (RETA) is designed to strengthen capacity in the economic analysis of health sector projects in the Bank as well as in the DMCs through the preparation of a handbook and through training. The RETA outputs are expected to assist in enhancing project quality and the development impact of Bank interventions in the health sector. The handbook will comprise a methodological framework and analytical techniques consistent with the *Guidelines* (1997), and demonstrate with the help of case studies and illustrations how these could be applied in real-life situations. The RETA will also

¹ Sector guidelines for build, operate, own and transfer (BOOT) projects and water supply projects are under preparation. Based on a prior report, *Guidelines for the Economic Analysis of Telecommunications Projects* has been completed.

identify practical problems in this regard including data limitations, skills shortage, resource implications, and further work.

6. The proposed RETA was preceded by the preparation of an issues paper, *Issues Paper on Guidelines for the Economic Analysis of Health Sector Projects*, which was completed in March 1997. The paper, among others, provides a list of possible techniques for the economic analysis of health sector projects and a review of how similar organizations and the Bank do it.

7. Health sector projects are heterogeneous, requiring different approaches to different types of projects. The RETA is intended to select the most appropriate techniques for analyzing the economics of health sector projects with due regard to typology, data difficulties, and resource implications; and to undertake case studies to demonstrate the extent of their applicability and adaptability in real-life situations in DMCs.

8. The RETA will be implemented in two phases: (i) Phase I - preparing a handbook; and (ii) Phase II - conducting training workshops. The RETA Screening Committee endorsed the RETA proposal on 12 September 1997¹.

II. BACKGROUND AND RATIONALE

9. Over the last two decades, the Bank has been involved in lending for health sector projects with a total portfolio of about \$1 billion. The lending covers a wide range of projects and is often combined with technical assistance and policy dialogue. The Bank is considering to increase its lending in the health sector in response to the increased emphasis being placed on the health sector by DMCs.

10. The success of these projects in terms of development impact, like all other Bank activities, depends in large part on the quality of project development, a key component of which is economic analysis. Economic analysis begins at the early stage of project development, for example, in the analysis of demand and in the analysis of least cost options. The selected option to meet the likely demand for project activities is further evaluated to examine its worth from the point of view of the national economy and long-term sustainability. In general, the Bank uses economic analysis of projects to ensure that (i) resources are used efficiently; (ii) the project provides a sufficient rate of return on investment; (iii) sufficient funds are available to make project operation sustainable; (iv) the distribution of project benefits and costs is consistent with project objectives; and (v) there is adequate consideration of social and environmental concerns.

11. Health sector planning poses a series of unique and difficult issues. To begin with, unlike in other sectors, there is no trade-off in health sector activities as they are involved in addressing very delicate issues such as treatment of illness or avoidance of illness, both involving human lives and having implications for human resource development. The trend toward liberalization, market orientation, and privatization is reshaping the way projects are identified, designed, and evaluated. In this changed context, the rationale for public involvement, either in investment projects or in policy aspects such as regulation, incentive mechanisms, capacity building, and good governance must be strong. Likewise, the alternative

¹ The RETA first appeared in the *ADB Business Opportunities* in May 1997 (Internet edition).

to public provision must be properly established. Project designs and benefit valuation in the health sector are much more complex than in other sectors, especially the sectors that traditionally apply economic cost-benefit analysis such as infrastructure and energy. In addition, until recently, economic benefits in health sector projects have been methodologically difficult to value and some of the basic input data have been unavailable.

12. Improved project economic analysis also provides a strong basis for choosing between project alternatives, and between program and project approaches. Increased attention to budgetary analysis and cost recovery issues likewise enhances the prospects for project sustainability.

13. The findings of the Issues Paper (1997), which reviewed the methods used for economic analysis in theory and in actual practice in the Bank and similar organizations, suggest that (i) in Bank-funded health sector projects economic cost-benefit analysis or any economic efficiency considerations, and analysis of project sustainability and fiscal implications for the governments were rarely carried out; (ii) the quality of the economic analysis of health sector projects at the Bank can be substantially improved; (iii) both methodological and data limitation obstacles preventing or constraining the application of economic analysis methods can be overcome and a reasonably good quality economic analysis of health sector projects is possible without any unreasonable resource implications for the Bank and its client governments; (iv) the Bank's 1987 health sector guidelines (in *Guidelines for Economic Analysis of Projects*, Appendix 12), need revision to incorporate recent ideas and techniques in health economics; (v) detailed health sector analysis is useful to identify projects, to develop a policy reform agenda, and to provide basic information for the preparation and economic analysis of health sector projects; and (vi) more rigorous economic analysis of Bank interventions in the health sector of DMCs will help ensure project quality and development impact by improving project design and allowing the selection of projects with higher economic benefits in relation to the economic cost of resources put in.

14. However, it was also noted that because of the complexity of health sector projects, acceptable quality economic analysis may require additional resources in terms of both staff time and consultant budgets. The extent to which the Bank can improve the economic analysis of health sector projects may therefore depend on the additional resources that it allocates to the task.

15. One of the major recommendations of the Issues Paper was to develop a sector-specific methodological framework and a set of guidelines for the preparation and economic evaluation of health sector projects. This would include deciding which components of economic analysis are critical to project design based on the type of Bank health sector interventions, the benefit to improving design relative to cost, and the data limitations. This recommendation is proposed to be implemented through RETA.

III. THE TECHNICAL ASSISTANCE

A. Objective

16. The ultimate objective of the RETA is to strengthen the capacity in DMCs and the Bank to carry out economic analysis of health sector projects. The RETA aims to prepare a handbook comprising a methodological framework to promote policy consistency, allocative

efficiency, equity considerations, and financial sustainability as well as to enhance analytical rigor and quality in the economic analysis of health sector projects so as to enhance the quality and developmental impact of Bank interventions in the health sector. The proposed RETA will complement other Bank initiatives in the health sector, including RETA 5668 Health Policy Options for Asia (already completed); and the draft health sector policy paper being prepared.

B. Scope

17. The main activity of the RETA will be the preparation and publication of an easy-to-follow handbook comprising a health sector-specific methodological framework and guidelines for the economic analysis of health sector projects. To ensure that the guidelines are operationally feasible, case studies will be undertaken to demonstrate the practical application of the recommended methodologies. The case studies will, among others, identify practical constraints (including technical skills and data requirements) and their possible solutions, and provide feedback for refining the guidelines and developing capacity in DMCs.

18. The case studies will cover several types of health sector projects in DMCs where a significant part of Bank lending has gone and/or is likely to go. These may include Bank health sector projects under preparation or implementation. Diversity in project type will be ensured. The case studies will also identify problems relating to basic health statistics and their possible solutions. The case studies and countries will be selected in consultation with the relevant Projects and Programs Departments and the Office of the Pacific Operations (OPO).

C. Cost Estimates

19. The total cost of the RETA is estimated at \$350,000, which will cover the costs of international and domestic consulting services, preparation and publication of a handbook, seminars and workshops, travel and per diem for a Bank resource person, and other related costs. The RETA will be financed by the Bank on a grant basis from the Bank-funded technical assistance program. A summary of the cost estimates is presented in Appendix 1.

D. Implementation Arrangements

20. The Bank's Economics and Development Resource Center (EDRC) will be responsible for implementing the RETA, including overall administration, supervision, and monitoring. EDRC will also be responsible for interdepartmental consultation and coordination to ensure that the RETA output is relevant to the Bank's operations and that the prescribed methodologies are operationally feasible. An interdepartmental working group will be set up for this purpose.

21. International consultants will be recruited to develop a common health sector-specific framework and easy-to-follow guidelines for the economic analysis of projects in the health sector. The international consultants will be supported by domestic consultants in undertaking case studies, which will be designed to demonstrate the practical application of the techniques and procedures recommended in the guidelines and identify practical problems including data limitations, skills shortage, and resource implications and their possible solutions. The consultants will work under the supervision of a designated EDRC staff member who will also serve as the Bank resource person, and will use the materials available within the Bank and other published sources, and adequately consult Bank staff in the Projects and

Programs Departments and OPO. The draft guidelines and case study findings will be discussed within the Bank and reviewed by the interdepartmental working group. Seminars and workshops will be conducted in the DMCs to discuss, refine and finalize the case study findings. Coordination of the preparations for, and conduct, of the seminars and workshops will be under the overall supervision of the Bank resource person.

22. A total of eight person-months of international consultant services and nine person-months of domestic consultant services will be engaged in accordance with the Bank's *Guidelines on the Use of Consultants* and other arrangements for the engagement of domestic consultants. The indicative terms of reference for the consultants are given in Appendix 2. Implementation of the TA is expected to commence in early 1998 and to be completed in 12 months (Appendix 3).

IV. THE PRESIDENT'S DECISION

23. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, in an amount not exceeding the equivalent of \$350,000 for Strengthening of Capacity in Economic Analysis of Health Sector Projects in DMCs, and hereby reports such action to the Board.

**COST ESTIMATES
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Item	Cost
1. Consultants	
a. International Consultants:	
i. Remuneration (8 person-months)	152,000
ii. Per Diem (240 days)	42,000
iii. Airfare (Round Trip)	28,000
iv. Local Travel	1,000
b. Local Consultants:	
i. Remuneration (9 person-months)	36,000
ii. Local Travel	8,000
2. Bank Resource Person ¹	23,500
3. Seminars/Workshops (Logistics)	6,000
4. Report Preparation and Printing (Including Editing and Graphics)	7,000
5. Supplies and Miscellaneous	3,000
6. Contingencies	43,500
Total	350,000

¹ Includes travel and per diem for the case studies and workshops

TERMS OF REFERENCE FOR CONSULTANTS

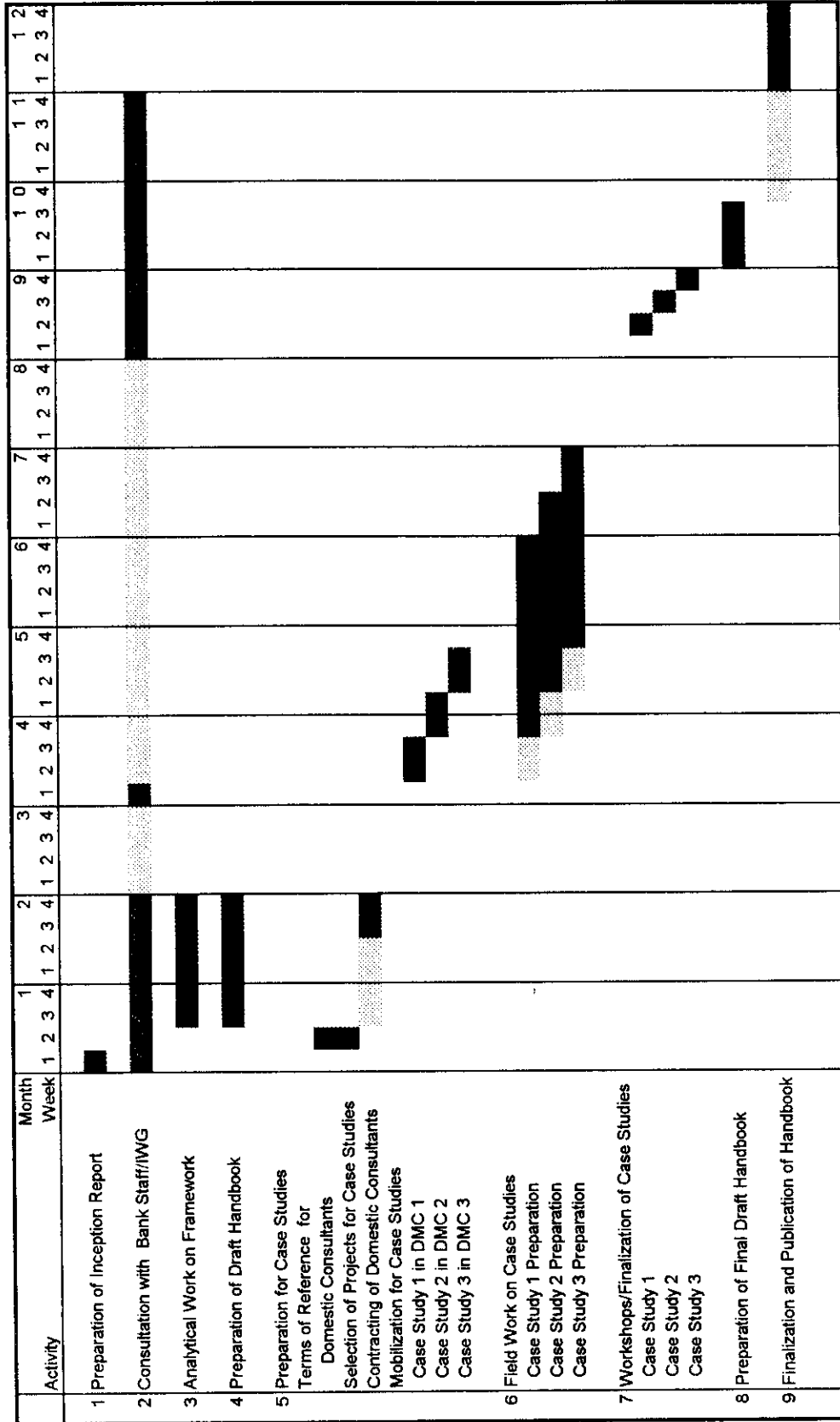
1. Four international consultants for a total of eight person-months will be engaged. The consultants will (i) prepare a handbook comprising a health sector-specific methodological framework and easy-to-follow guidelines for the economic analysis of health sector projects; (ii) undertake case studies, which may include sector analysis to demonstrate the practical application of the techniques and procedures recommended in the guidelines, and identify practical constraints that will provide feedback for refining the guidelines and for capacity building; and (iii) collect and consolidate relevant technical data to facilitate the analysis. The international consultants will be supported by domestic consultants in undertaking the case studies.
2. Under the supervision of designated Economics and Development Resource Center (EDRC) professional staff, international consultants, who will also supervise domestic consultants, will work closely with Bank staff involved in the health sector and conduct in-house seminars at Bank headquarters and in the counterpart Government agencies in selected DMCs (where case studies will be undertaken) to discuss the proposed draft guidelines and case studies findings, as necessary. Case studies will be selected by EDRC in consultation with relevant Projects and Programs departments and the Office of Pacific Operations (OPO).
3. The handbook will be refined, where necessary, considering the feedback from the case studies and seminars and interdepartmental comments. Succinct summaries of the case studies will be appended.
4. The international consultants should have a strong professional background in the economic analysis of projects and health sector economics and practical experience of working with multilateral development banks and DMC governments. The detailed terms of reference are as follows:
 - (i) Prepare a methodological framework to carry out the preparation and economic analysis of health sector projects in line with the Bank's *Guidelines for the Economic Analysis of Projects* (1997).
 - (ii) Prepare a draft handbook containing a set of guidelines for the preparation and economic analysis of health sector projects.
 - (iii) Undertake case studies to demonstrate the application of the prescribed methodologies to real-life situations in selected DMCs; and to identify practical constraints including data limitations, skills shortage and resource implications and recommend possible solutions.
 - (iv) Conduct seminars/workshops to discuss the draft guidelines, case study findings at Bank headquarters and also in selected DMCs at the completion of the case studies.

(Reference in text: page 5, para. 22)

- (v) Develop and finalize, in consultation with EDRC staff, detailed terms of reference and a work program for domestic consultants, and supervise their work.
- (vi) Coordinate, as much as possible, with the Bank's health sector missions and Project Preparatory Technical Assistance (PPTA) in undertaking the case studies.
- (vii) Considering the feedback from the case studies, make appropriate revisions in the guidelines.
- (viii) In close consultation with EDRC and drawing on the case studies, finalize the draft handbook comprising the methodological framework, guidelines, and illustrations.
- (ix) Formulate a program for strengthening the capacity in the preparation and economic analysis of health sector projects, entailing (a) training workshops, health statistics systems, and other appropriate activities; and (b) an estimate of their costs and indicative implementation schedule.

3. Domestic consultants for a total of nine person-months will be engaged. They should be economists with experience in the economic analysis of health sector projects. They will work closely with and assist the international consultants in carrying out case studies in selected DMCs. Detailed terms of reference for the domestic consultants will be developed by the international consultants in consultation with EDRC staff responsible for implementation of the RETA.

IMPLEMENTATION SCHEDULE



Legend:
 █ Main Activity
 ▨ Preparatory Work/Consultations

(Reference in text: page 5, para. 22)