Session 2.2
Estimation of Project Benefits

Introductory Course on Economic Analysis of Investment Projects
## Specifying the Output-to-Benefit Linkage

<table>
<thead>
<tr>
<th>Output-to-Benefit Characteristic</th>
<th>Characteristic</th>
<th>Alternate characteristic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of output-to-benefit linkage mechanism</td>
<td>Direct (e.g., the project produces intermediate or final goods for participants)</td>
<td>Indirect (e.g., the project strengthens institutions or services to participants)</td>
</tr>
<tr>
<td>Basis of output valuation</td>
<td>Project output is sold in domestic and/or international markets</td>
<td>Project output is not sold in markets (domestic or international)</td>
</tr>
<tr>
<td>Types of beneficiaries</td>
<td>Existing participants (e.g., farmers, smallholders)</td>
<td>New, or new and existing participants</td>
</tr>
</tbody>
</table>
Measuring Benefits in an Efficient Market with No Price Effects

\[
\text{Revenues} = \text{Benefits}
\]
Measuring Benefits in an Efficient Market with Price Effects

\[ \text{Revenues + SS Change} = \text{Benefits} \]
Benefit Valuation Methodology

- Non-incremental Benefits
  - Resource Cost Savings
  - Supply Price

- Incremental Benefits
  - Willingness-to-Pay
  - Demand Price
Valuing Project Outputs

Incremental to present production

DEMAND PRICE

Tradable
World Market Price (FOB)

Non-tradable
Domestic Market Price

Non-incremental to present production

SUPPLY PRICE

Tradable
World Supply Price (CIF)

Non-tradable
Domestic Market Price

NB> Note that the domestic market demand price includes net taxes (i.e., it is a measure of what consumers are willing to pay for it), but that the domestic market supply price is only the cost of production (i.e., it should exclude any production taxes or surplus profits).
## Benefit Identification:
### Urban Infrastructure Projects

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>Potential Nonincremental Benefits</th>
<th>Potential Incremental Benefits</th>
</tr>
</thead>
</table>
| a) Piped Water Supply | i) Alternative sources of supply displaced  
ii) Improved quality displacing adverse health impacts  
iii) Improved quality resulting in efficiency gains | Improved quality  
Induced demand |
| b) Wastewater Treatment | i) Alternative sources of wastewater treatment displaced  
ii) Improved health through cost of illness displacement | Induced demand |
## Benefit Identification: Energy Projects

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>Potential Non-incremental Benefits</th>
<th>Potential Incremental Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Power Generation</td>
<td>Displaced alternative forms of electricity/energy generation in various sectors – all size generators</td>
<td>Additional or induced energy consumption valued at willingness-to-pay</td>
</tr>
<tr>
<td>b) Electricity Transmission</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| i) Augmentation | i) Transmission loss reduction  
  ii) Reliability Improvement  
  ii) Alternative supply displacement | Induced demand |
| ii) Interconnection | Alternative sources of fuel displaced | Induced demand |
### Benefit Identification:
#### Transportation Sector

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>Potential Non-incremental Benefits</th>
<th>Potential Incremental Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Road Improvement/Rehabilitation</td>
<td>i) Reduced operating costs for existing traffic</td>
<td>Willingness-to-pay of new traffic generated by improved conditions of road.</td>
</tr>
<tr>
<td></td>
<td>ii) Reduced operating costs for traffic diverting from alternative route</td>
<td></td>
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<tr>
<td></td>
<td>iii) Travel time savings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>iv) Reduced road maintenance expenditures</td>
<td></td>
</tr>
<tr>
<td>b) Expressway Construction</td>
<td>i) Resource cost savings for traffic diverting from existing roads/railways</td>
<td>Willingness-to-pay of new traffic generated by new road.</td>
</tr>
<tr>
<td></td>
<td>ii) Resource cost savings for traffic remaining on existing roads (reduced congestion)</td>
<td></td>
</tr>
</tbody>
</table>
Transport projects

- Benefits = Vehicle Operating cost savings for Normal Traffic
- Benefits = 0.5* Vehicle Operating cost savings for Generated Traffic
- Benefits can be estimated initially in financial prices (eg via HDM model) then converted to economic prices
Non-Quantifiable Economic Benefits

- non-tangible (social / political, knowledge / information / business skills)
- tangible (inputs for processing industry, new businesses)
- exclude from economic analysis but describe textually (quantity and quality)
Thank you