Key Areas of Economic Analysis of Projects at Completion

Richard Bolt, OED

Introductory Course on Economic Analysis Of Investment Projects
9 May 2008
Project Completion Report and the Project Cycle
Scope of a Project Completion Report

- Project description at appraisal and completion
- Evaluation of design and implementation
- Evaluation of performance
- Overall assessment and recommendations

PAI 6.07
What does Evaluation cover?

- Relevance
- Effectiveness in achieving outcomes
- Efficiency in achieving outcomes and outputs
- Preliminary assessment of sustainability
- Impact
What Economic Analysis at Completion Covers

• More than rate of return calculation
• Framework/tool to assess whether project was relevant
  feasible (effective, efficient, sustainable)
  welfare contribution (impact)

Key opportunity to compare assumptions at design and completion
Scope of Project Economic Analysis at Completion

1. Macro Context
2. Sector Analysis
3. Demand Analysis
4. Project Rationale
5. Alternative Analysis
6. Valuation of Benefits & Costs
7. Financial & Institutional Sustainability
8. Distribution Analysis
9. Sensitivity Analysis
10. Monitoring & Evaluation

Was the project relevant, did it address the right problem, was the rationale for ADB’s support right, did it have the right objective?

Was the right design alternative used and was the project economically efficient?

Was the project sustainable, did it impact on intended beneficiaries, will it continue to be feasible, what should be monitored in future?
Macroeconomic Context and Impact

- Was the project relevant vis-à-vis country and ADB objectives:
  - was there a link to the country’s broader development objectives?
  - the CSP?

- Did macroeconomic factors affect project performance
  - did factors arise at the macro level that influenced project performance?
  - Did the project have an impact at the macro-level?

Large projects need a macro impact analysis
Sector Context and Impact

Did the project address the right constraint or need, what impact did it have, and what affected performance?

- Was the policy and regulatory environment conducive?

- Did the project supply the right good or service and overcome the identified constraint?

- Was the role of the public versus private sector justified?

Is there a justification for further support, should policy constraints be addressed first?
Demand Analysis

Was the project output wanted? Were users willing to pay for it?

- Was the project design demand-driven?
- What was the demand for project outputs?
- How much output was wanted compared to what was supplied (was the project size appropriate)?
- How responsive was demand to key variables (Y, P, etc.)

basis for estimating project benefits
Project Rationale

Was public intervention justified?

- Was the market or institutional failure addressed?
- Did the good or service remain public in nature?
- Were equity issues served?
- Is there any evidence to show what would have happened without government involvement – the counterfactual?
Alternative Analysis

Was the Project the most efficient way of addressing the problem?

- Was the selected project design alternative appropriate in terms of lending modalities, financial arrangements, scale and timing, location, etc.

- Was the design the least cost alternative?
Valuation of Benefits & Costs

- Assess what happened with the project compared to w/o project (counterfactual)
- Identify and value project benefits & costs
- Calculate economic rate of returns
- Economic viability: $EIRR > EOCC (12\%)$
- Cost effectiveness analysis if benefits cannot be valued

$EIRR$ a major indicator of development impact
Financial and Institutional Sustainability

Are there enough resources to ensure flow of benefits?

- Financial analysis for revenue generating projects
- Cost-recovery planned versus actual
- Fiscal impact (implicit or explicit subsidy)
- Sources of funds to meet net financial requirements
- Institutional environment assessment (technical & policy aspects)
Distribution Analysis

Who benefited and by how much?

- Identify groups that gained or lost
- Assess size of gains and losses
- Were the intended target groups served (poor women, etc.)

sheds light on impact of project, sustainability
Sensitivity and Risk Analysis: Future Sustainability

What are the chances that benefits & costs will be sustained?

- Identify variables whose values were uncertain and the project was sensitive to.
- Were there any parameters that changed feasibility?
- Assess likelihood of further changes occurring.
- What mitigating action can be taken against main sources of uncertainty?
Monitoring & Evaluation

Do initial assumptions maintain validity throughout project life?

• Identify key variables needed to track the project after completion
• Establish system to collect data on all key variables
Overall Economic Assessment at Project Completion

- Was the project relevant in county/sector context?
- Was the rationale for public sector intervention justified?
- Was the best alternative design selected to be effective?
- Was the project efficient/economically sound?
- Is there evidence that the project had or will have the intended impact?
- Is the project sustainable? What are the future risks?
For more see...


Thank You