

# Session 1

## An Introduction to Economic Analysis in ADB Operations

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Introductory Course on Economic Analysis of  
Policy-Based Lending Operations  
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# Outline

- What Does Economic Analysis Do and Why It is Important?
- Dimensions of Economic Analysis
- Applying Economic Analysis in ADB's Operations
- Highlights of Economic Analysis Retrospectives 2002, 2003, 2004 and 2005
- The Role and Functions of the Economic Analysis and Operations Support Division (EREA)
- Overview of This Training Course

# What Does Economic Analysis Do?

- To establish economic rationale for public sector involvement
- To help making the choice among alternative instruments and solutions
- To assess a project's benefits and costs and potential development impact

# Benefits of Doing Economic Analysis

## Deiningger, K. (Does Economic Analysis Improve Quality of Foreign Assistance?)

- ESW has significant impact on various measures of quality project; ESW has a systematically positive effect on the quality of lending program
- ESW help staff design better projects ex ante and improve the quality of projects already in the investment program

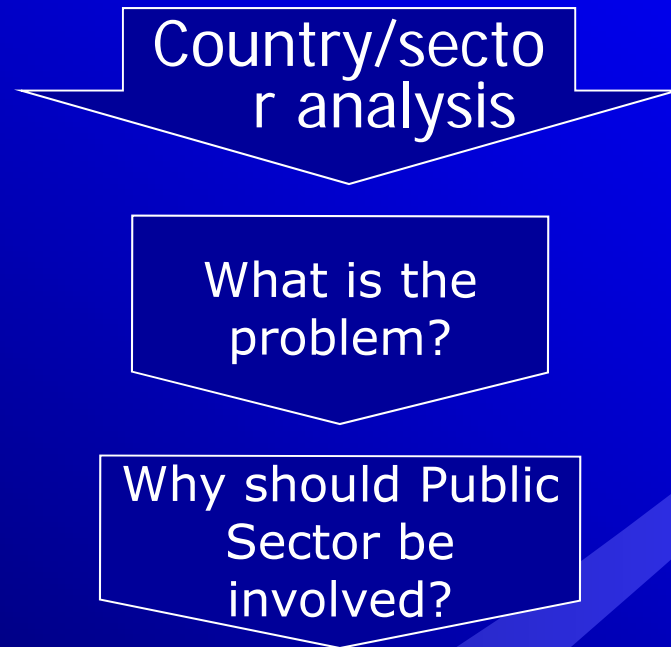
## Jenkins, G. (Project Analysis and the World Bank)

- If the economic appraisal of a project is poorly done prior to approval, the probability that it would perform unsatisfactorily by the 3<sup>rd</sup> year after implementation is 7x higher than that of a project with good economic analysis.

# Dimensions of Economic Analysis

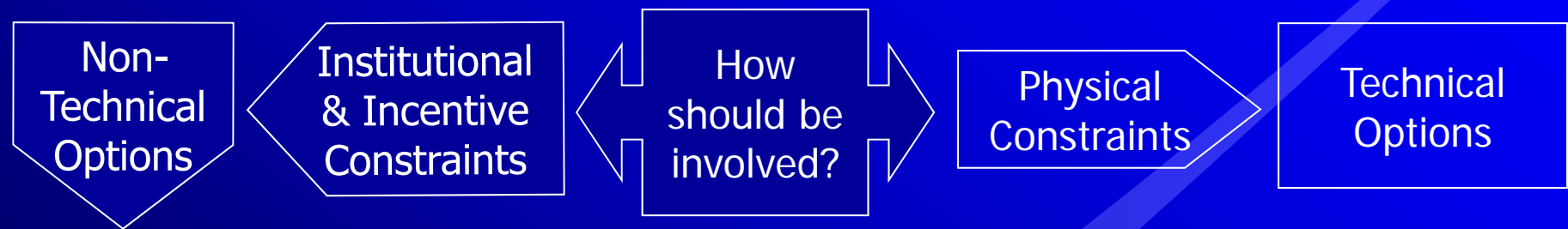
- Beyond estimating rates of return
- Establish relevance and responsiveness of ADB operations and economical viability of ADB-financed projects
  - ✓ Relevance: doing the right things
  - ✓ Responsiveness: doing them the right way
  - ✓ Economic viability: establish economic efficiency

# Dimensions of Economic Analysis: Relevance



These questions identify basic problems, binding constraints, solutions, and appropriate role of the government

# Dimensions of Economic Analysis: Responsiveness



There is a menu of choices for taking action; one of them would be most appropriate to achieve agreed goals.

# Policy-based lending as a Non-Technical Solution

Policy-based lending is a type of non-technical solution. It is provided by ADB to assist a DMC in developing a sector (or sub-sector, sectors) as a whole and improving its performance through appropriate policy and institutional reforms.



# Changing Focus of ADB Support for DMC Reforms

	Price Related Reforms	Institution & Governance Reforms	Macro economic Loans	Total number of loans
<b>1987-1990</b>	14	3	0	17
<b>1991-1995</b>	10	6	0	16
<b>1996-2000</b>	4	36	12	52
<b>2001-2003</b>	3	32	1	36
<b>2004-2006</b>	0	37	0	37

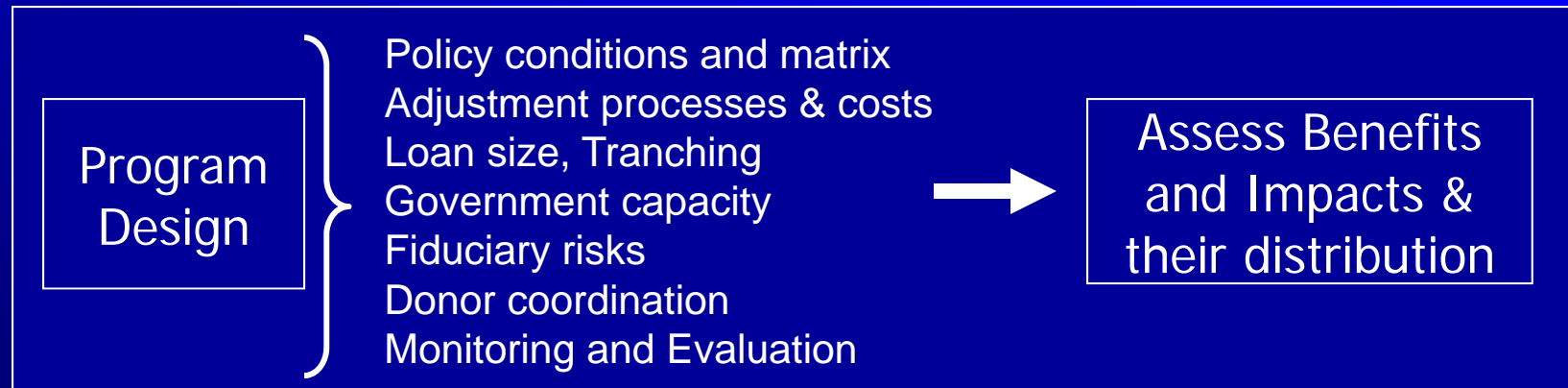
\* TA loans not included.

Note: Classification reflects primary objective focus



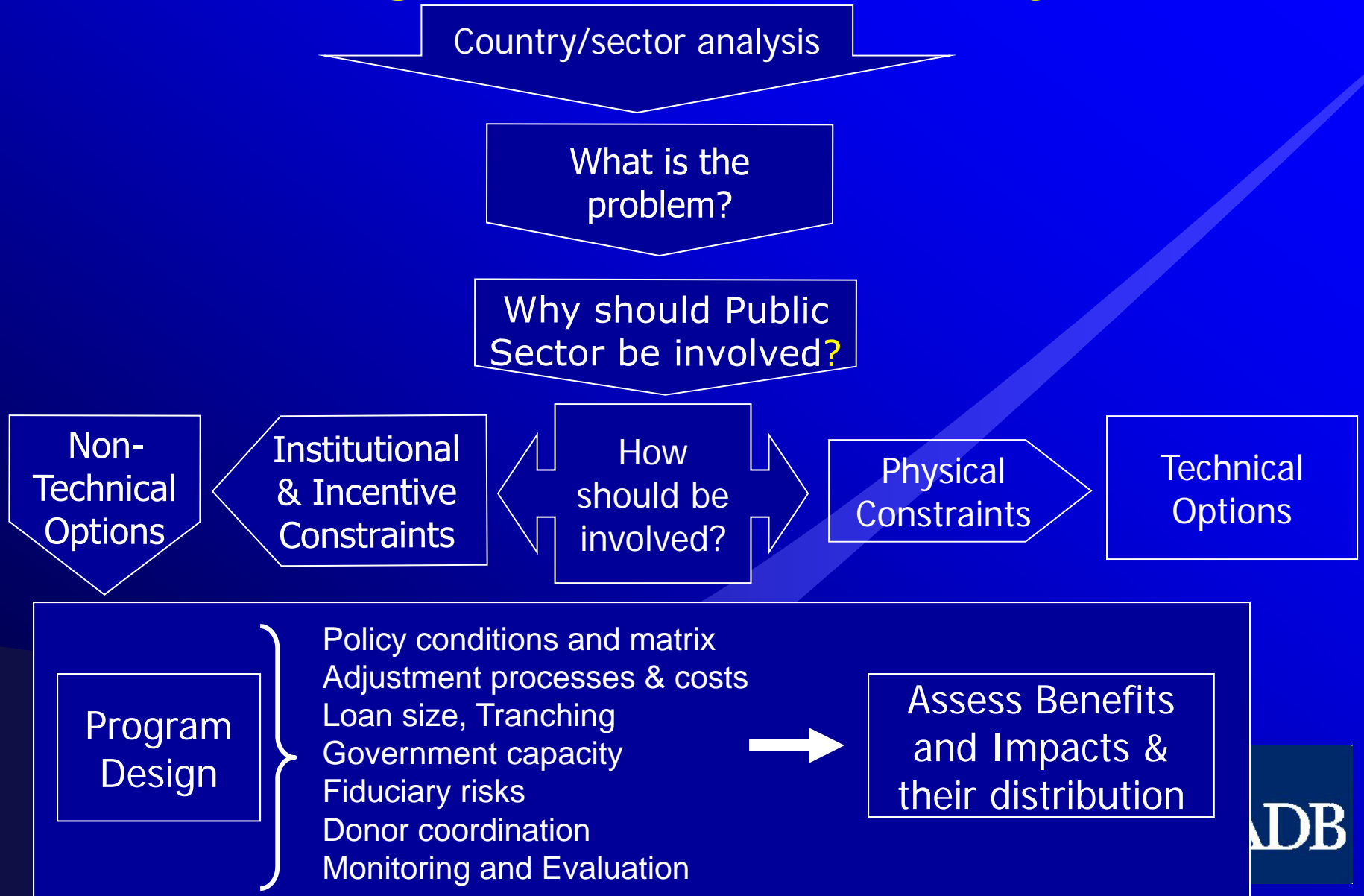
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# Dimensions of Economic Analysis: Economic Viability



Assuring that ADB-financed policy and institutional reforms are economically viable and add value

# Economic Analysis is Relevant at all Stages of Operational Cycle



# Applying Economic Analysis in ADB's Operations

## Economic, Thematic and Sector Work (ETSW)

- What are the problems in a DMC?
- What are the binding constraints?
- Why should the public sector intervene?

## Country Partnership Strategy (CPS) and Business Plan

- Why should ADB be involved – establish the rationale for ADB assistance
- What instruments should ADB use?

## Project Development (PPTAs and RRP)

- Validates rationale and justification for ADB assistance
- Ensures each operation is economically viable, adds value and generate results, through rigorous economic analysis

# Highlights of Economic Analysis Retrospectives

## 1. Retro 2002

Improvements required during program formulation:

- Macroeconomic and sector analysis
- Linkage of individual projects to country strategy
- Rationale for public sector involvement

Improvements required for project-specific analysis

- Demand and market analysis
- Analysis of alternatives
- Quality of quantitative economic analysis
- Sensitivity and risk analysis
- Project sustainability analysis

# Highlights of Economic Analysis Retrospectives

## 2. Retro 2003

### Strengthening quality at entry

- requires improvements in analysis at both country/sector and project level
- Clearly identified problem and its causes at the country and sector appraisal stage results in a more focused project appraisal

## 3. Retro 2004

- Covers only the Education projects
- Key finding: Weak Sector diagnosis

# Highlights of Economic Analysis Retrospectives

## 4. Retro 2005

- Country Assessments: lack of systematic analysis of binding constraints to growth and poverty reduction
- ADB Assistance Strategy and Program: Lack of clear demonstration that country assistance strategies directly target binding constraints and cater to country specific needs;
- Economic Analysis of Investment Projects: Weakest areas of economic analysis were still articulation of economic rationale, demand analysis and alternative analysis

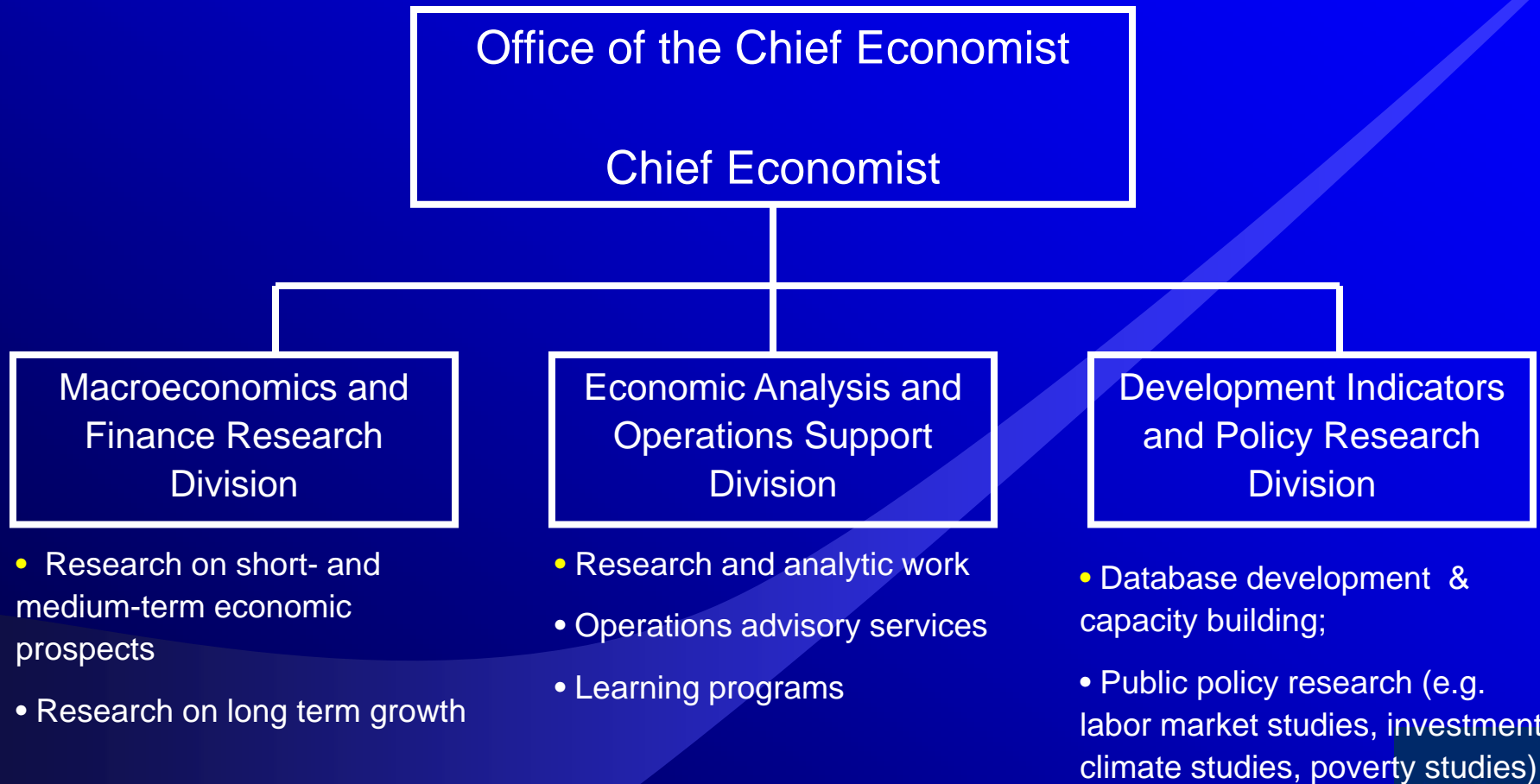
# Highlights of Economic Analysis Retrospectives

## 4. Retro 2005

- Economic Analysis of Policy-based Program Loans
  - Weakness in assessments of government reform programs and implementation capacities
  - Determination and justification of loan size
  - Analysis of economic benefits and poverty impacts
  - Weakness in discussing risk mitigation



# How is ERD organized?



# What Does the Economic Analysis and Operations Support Division of ERD Do?

- Undertake research and analytic work on economic analysis methodologies and tools relevant to ETSW, CPS and PPTA;
- Provide operational support advisory services through review of economic analysis in ADB operations and interactions with RD colleagues; and
- Offer learning programs on economic analysis of ADB operations

# Overview of the Course: Course Objectives

- To introduce concepts, principles, methods of economic analysis of policy-based lending (PBL)
- To look at key issues in designing a program loan through case studies
- To examine policy economy in PBL operations

# Outline of the Course

## **5 June BASICS OF POLICY-BASED LENDING**

Session 1: Introduction

Session 2: Aid Modalities and Aid Effectiveness

Session 3: ADB Experience and Policies on PBL

## **6 June DESIGNING A PROGRAM LOAN**

Session 4: Problem Diagnosis

Session 5: Program Design: Key Considerations

Session 6: Results Framework in PBL

## **7 June CASE STUDIES IN PBL & IMPACT ASSESSMENT OF PBL**

Session 7: Case Study: Review of 10 PBL Operations

Session 8: Case Study: PHI: Development Policy Support Program

Session 9: Assessing Welfare Impact of PBL Operations

## **8 June POLITICAL ECONOMY OF PBL OPERATIONS**

Session 10: Conceptual Framework and Case Studies

Thank you.

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