

# **Session 1.1**

## **Overview of Economic Analysis in ADB Operations**

**Introductory Course on Economic Analysis of  
Investment Projects**

**5-9 July 2010**

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# Outline

- I. What Does Economic Analysis Do and Why It Is Important
- II. Applying Economic Analysis in ADB Operations
- III. 10 Key Areas of Project Economic Analysis
- IV. Highlights of Past Economic Analysis Retrospectives
- V. Objectives of this Training Course



# I. What Does Economic Analysis Do?

- To help identify areas where investment is needed
- To establish the economic rationale for public sector involvement
- To help make the choice among alternative instruments and solutions
- To assess a project's economic benefits and costs, potential development impact, and potential risks

# Benefits of Good Economic Analysis

- **Deininger, K. (Does Economic Analysis Improve Quality of Foreign Assistance?)**
  - Economic and sector work (ESW) has significant impact on various measures of quality of 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 at the World Bank)**
  - If the economic appraisal of a project is poorly done prior to approval, the probability that it would perform unsatisfactorily is 7 times higher than that of a project with good economic analysis

## II. Applying Economic Analysis in ADB Operations

- At regional level, economic analysis underpins ADB's corporate strategy and assessment of development outlook.
- At country level, economic, thematic, and sector work (ETSW) provides basis for Country Partnership Strategy
  - What are the binding constraints to growth and poverty reduction in a particular DMC?
  - Why should the public sector intervene?
  - Why should ADB be involved and what instruments to use?
- At project level, economic analysis establishes economic rationale and viability for each project
  - Ensure each project is economically viable, cost-effective, and generates sustained development results



Country/sector analysis



**What** is the problem?

**Why** should Public Sector be involved?

**How**

should public sector be involved?

Technical Options

Physical Constraints

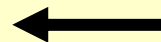
Institutional & Incentive Constraints

Non-Technical Options

Verify Demand/  
Benefits



**Compare** Costs and Benefits



Ensure Least Cost Option is Selected

ADB

# III. Key Areas of Project Economic Analysis

1. Assess macroeconomic context
2. Assess sector context
3. Assess demand
4. Identify economic rationale
5. Identify project alternatives
6. Identify and compare benefits and costs
7. Assess financial and institutional sustainability
8. Undertake distribution analysis
9. Undertake sensitivity and risk analysis
10. Establish a Project Performance Monitoring System



## **IV. Highlights of Past Retrospective Reviews of Project Economic Analysis**

- Improvements required in the following areas:
  - Demand analysis
  - Analysis of alternatives
  - Sensitivity and risk analyses



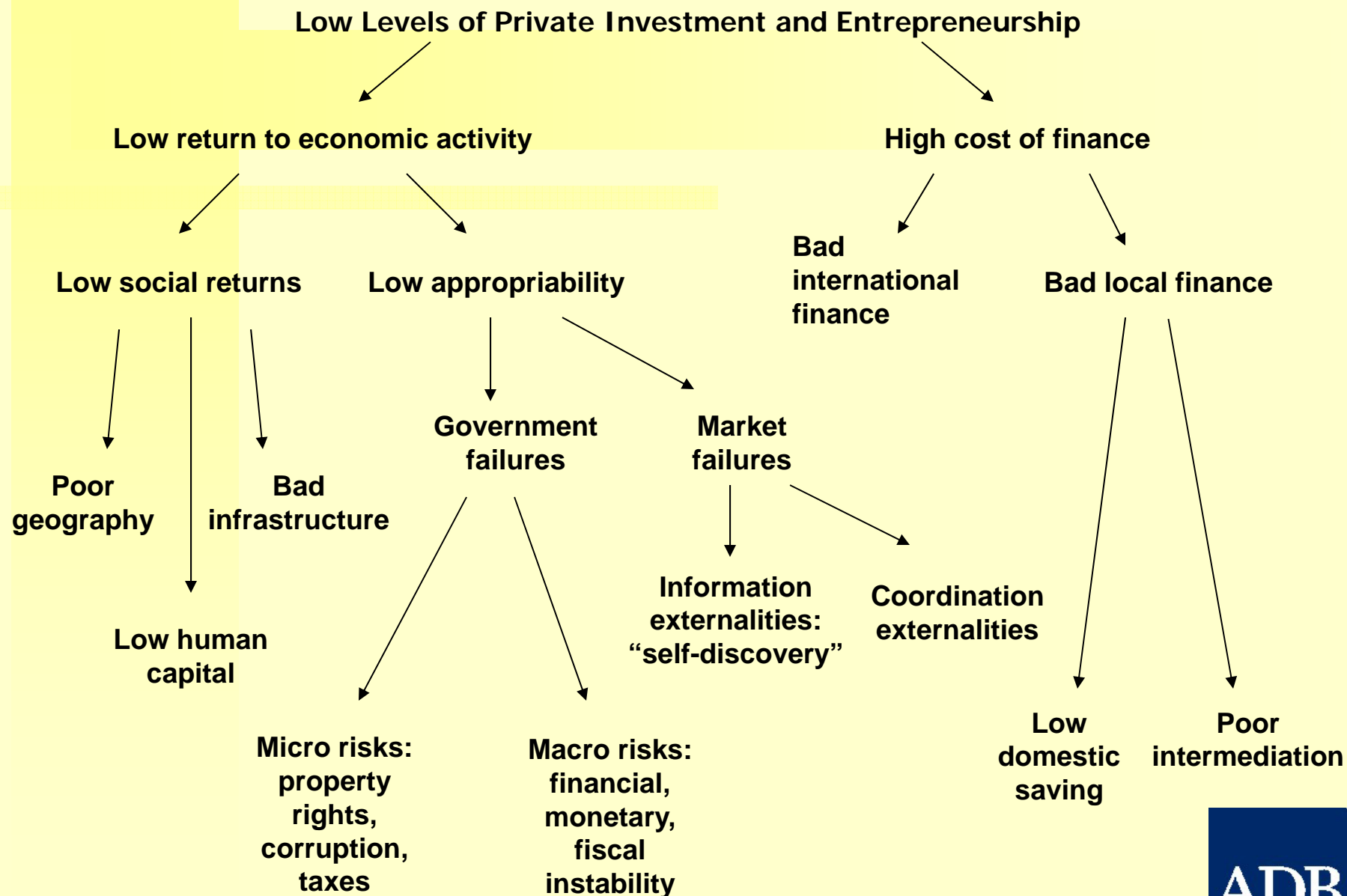
## VI. Objectives of this Training Course

- To introduce concepts/principles of project economic analysis
- To discuss applications of techniques based on guidelines
- To identify key issues in the conduct of project economic analysis

**Thank you!**



# Growth Diagnostics



# Identifying Binding Constraints at a Sector/Project Level

