

Economics Training Series

Introductory Course

Establish fundamentals to improve chances of success

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What fundamentals?

- Macroeconomy
- Sector
- Rationale for public involvement
- Demand analysis

Why fundamentals?

- Projects make sense only in context
- Fundamentals help justify projects
- Weak fundamentals are a risk
- Review fundamentals established before

Why macroeconomics?

- Projects work best in healthy economies
- Unhealthy economies are a risk
- Macroeconomic distortion affect projects

What macroeconomics?

- Monetary policy
- Trade policy
- Fiscal policy
- Other distortions?

How to analyze macroeconomy?

- Review and update previous analysis
- Assess effect on project
- Example: Jilin (Rationale: Performance Indicators and Analysis, para 3)

Why sector analysis?

- Project should be part of a plan
- Plan helps justify a project
- Sector context directly affects the project

What sector analysis?

- Sector performance and constraints
- Supporting institutions
- Substitutes or competitors
- Government's plan

How to do sector analysis?

- Review and update previous analysis
- Assess effect on project
- Example: Jilin (App 2: Water Supply and Wastewater Sector Analysis)

What rationale?

- Why and how the government should intervene
- Why and how ADB should intervene

Why should government intervene?

- Natural monopoly
- Common property
- Law and order
- Redistribution
- Catalyze change

How should government intervene?

- Government owns and operates
- Government owns, private sector operates
- Government regulates private owners

Why should ADB intervene?

- Lack of finance
- Introduce new knowledge
- Improve practice
- Politics

How should ADB intervene?

- Project loan
- Sector loan
- Financial intermediation loan
- Program loan

Why a project loan?

- There's only one big project
- Government needs help with details
- New ideas and practices about projects

How to analyze rationale?

- Review government's role
- Review ADB's role
- Find value-added
- Example: Jilin (Rationale: paras 6-7; Analysis of Key Problems and Opportunities: paras 16-17)

Why demand analysis?

- To develop the right project
- To develop a good project
- Another justification of the project

What demand analysis?

- Sector demand
- Demand for project
- Demand for project's output
- Project's contribution to sector output

How to analyze demand?

- Depends on context
- Review sector analysis
- Use economic model
- Forecast prices and other economic factors
- Example: Jilin (SApp I, paras 10-21)

Recommended Reading

Macroeconomic and Sectoral Context

- Isham & Kaufmann, 2000, "How Policies and Institutions Affect Project Performance : Microeconomic Evidence on Aid Policies and Investment Productivity." In Gilbert and Vines, eds., *The World Bank :Structure and Policies*. London: Oxford University Press.
- ADB's Guidelines for the Economic Analysis of Projects, pp. 4-5

Rationale

- Guidelines, Appendix 2, pp. 2-4
- Hart, Schleifer, and Vishny, 1997. "The Proper Scope of Government." *Quarterly Journal of Economics* 112(4):1127-61.
- Foster and Leavy, 2001. *The Choice of Financial Aid Instruments*. Center for Aid and Public Expenditure, Overseas Development Institute, London.

Demand Analysis

- Guidelines, Appendix 1, p. 53