

INTRODUCTORY COURSE ON ECONOMIC ANALYSIS OF INVESTMENT PROJECTS

OVERVIEW OF ECONOMIC ANALYSIS IN ADB OPERATIONS

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Context

- Why We Do Economic Analysis
- Dimensions of Economic Analysis
- Applying Economic Analysis in ADB's Operations
- Highlights of Economic Analysis Retrospectives 2002, 2003, and 2004
- The Role and Functions of the Economic Analysis and Operations Support Division (EREA) of ERD

Why We Do Economic Analysis?

- To establish economic rationale for public sector involvement
- To inform the choice among alternative solutions and selection of the least cost technical design
- To assess project's economic benefits and costs and potential development impact
- To identify and assess potential project risks

Dimensions of Economic Analysis

- Beyond estimating rates of return
- Establish *relevance* and *responsiveness* of ADB operations and *economically viability* of ADB-financed projects
 - ✓ Relevance: doing the right things
 - ✓ Responsiveness: doing them the right way
 - ✓ Economic viability: adding value

Dimensions of Economic Analysis: Relevance

Country/sector
analysis

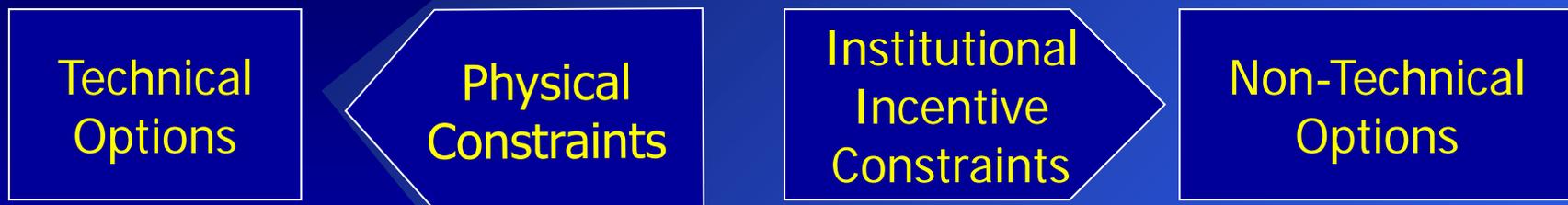
What is the
problem?

Why should Public
Sector be
involved?

How
Should be
involved?

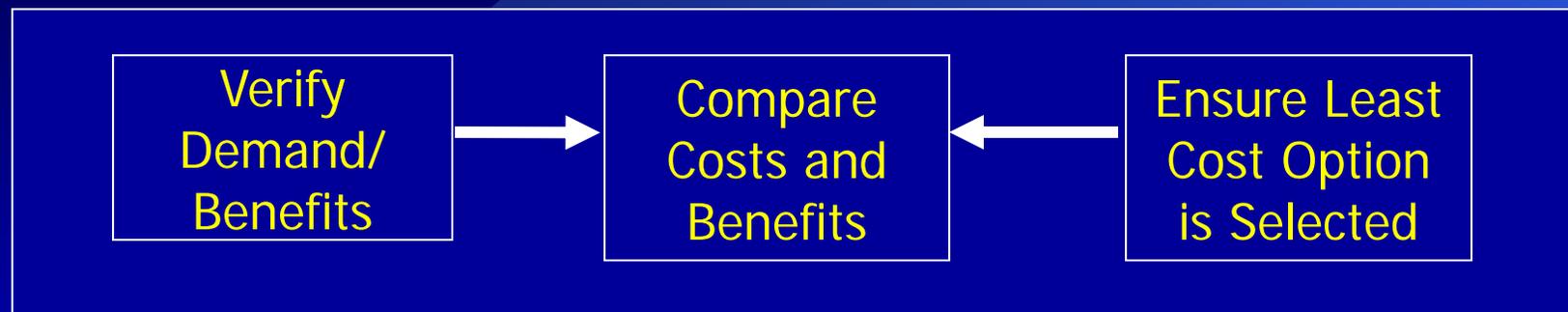
These questions identify basic problems/needs, underlying causes, and appropriate role of the government

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.

Dimensions of Economic Analysis: Economic viability



Assuring that ADB-financed projects are economically viable and add value.

Economic Analysis is Relevant at all Stages of Project Cycle

Country/sector analysis

What is the problem?

Why should Public Sector be involved?

Technical Options

Physical Constraints

How should be involved?

Institutional Incentive Constraints

Non-Technical Options

Verify Demand

Compare Costs and Benefits

Ensure Least Cost Option is Selected

Applying Economic Analysis in ADB's Operations

Economic and Sector Work (ESW)

- Establishes Relevance
- What are the problems?
- What are the binding constraints?

Country Strategy and Programs (CSP)

- Establishes Responsiveness
- Should ADB be involved?
- What instruments should ADB use?

Project Development (PPTA)

- Validates rationale and responsiveness
- Ensures a particular operation is economically viable and adds value

Highlights of Economic Analysis Retrospectives 2002, 2003, and 2004

- To assess how well economic analysis is applied in ADB's operations.
- To generate greater interest in ADB in applying rigorous economic analysis that informs the formulation of CSP and design of projects, thereby helping to ensure quality-at-entry and the achievement of greater aid effectiveness.
- To encourage and promote learning and knowledge sharing among ADB staff by identifying good practices and areas that are in need for improvement.
- Provides a basis for ERD to set its priorities for research and advisory services.

Highlights of Economic Analysis Retrospectives 2002, 2003, and 2004

Retro 2002

- Improvements required during program formulation:
 - ❖ Macroeconomic and sector analysis
 - ❖ Linkage of individual projects to country strategy
 - ❖ Rationale for public sector involvement

Highlights of Economic Analysis Retrospectives 2002, 2003, and 2004

Retro 2002

- Improvements required for project-specific Analysis
 - ❖ Demand and market analysis
 - ❖ Analysis of alternatives
 - ❖ Quality of quantitative economic analysis
 - ❖ Sensitivity and risk analyses
 - ❖ Project sustainability analyses

Highlights of Economic Analysis Retrospectives 2002, 2003, and 2004

Retro 2003

- Economic analysis extends through all operational cycle
 - ❖ ETSW is an essential step in identifying the binding constraints and helps establish the basic rationale for an intervention or project
 - ❖ Project economic analysis revalidates the project rationale and assesses the project feasibility and economic viability
- Strengthening quality at entry
 - ❖ requires improvements in analysis at both country/sector and project level

Highlights of Economic Analysis Retrospectives 2002, 2003, and 2004

Retro 2003

- ❖ clearly identified problem and its causes at the country and sector appraisal stage results in a more focused project appraisal

Retro 2004

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

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



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

- Role - to assist regional departments to improve the quality-at-entry of operations so as to strengthen ADB's aid effectiveness
- Functions
 - ❖ Undertake research and analytic work on economic analysis methodologies and tools relevant to ESW, CSP 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

Thank you.