

Session 1.1

Overview of Economic Analysis in ADB Operations

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

5 May 2008

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Outline

- I. What Does Economic Analysis Do and Why It Is Important
- II. Applying Economic Analysis in ADB Operations
- III. Dimensions of Economic Analysis
- IV. 10 Key Areas of Project Economic Analysis
- V. Highlights of Past Economic Analysis Retrospectives
- VI. The Role and Functions of the Economic Analysis and Operations Support Division (EREA)
- VII. 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 and potential development impact
- To identify and assess potential project risks

Benefits of Doing 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

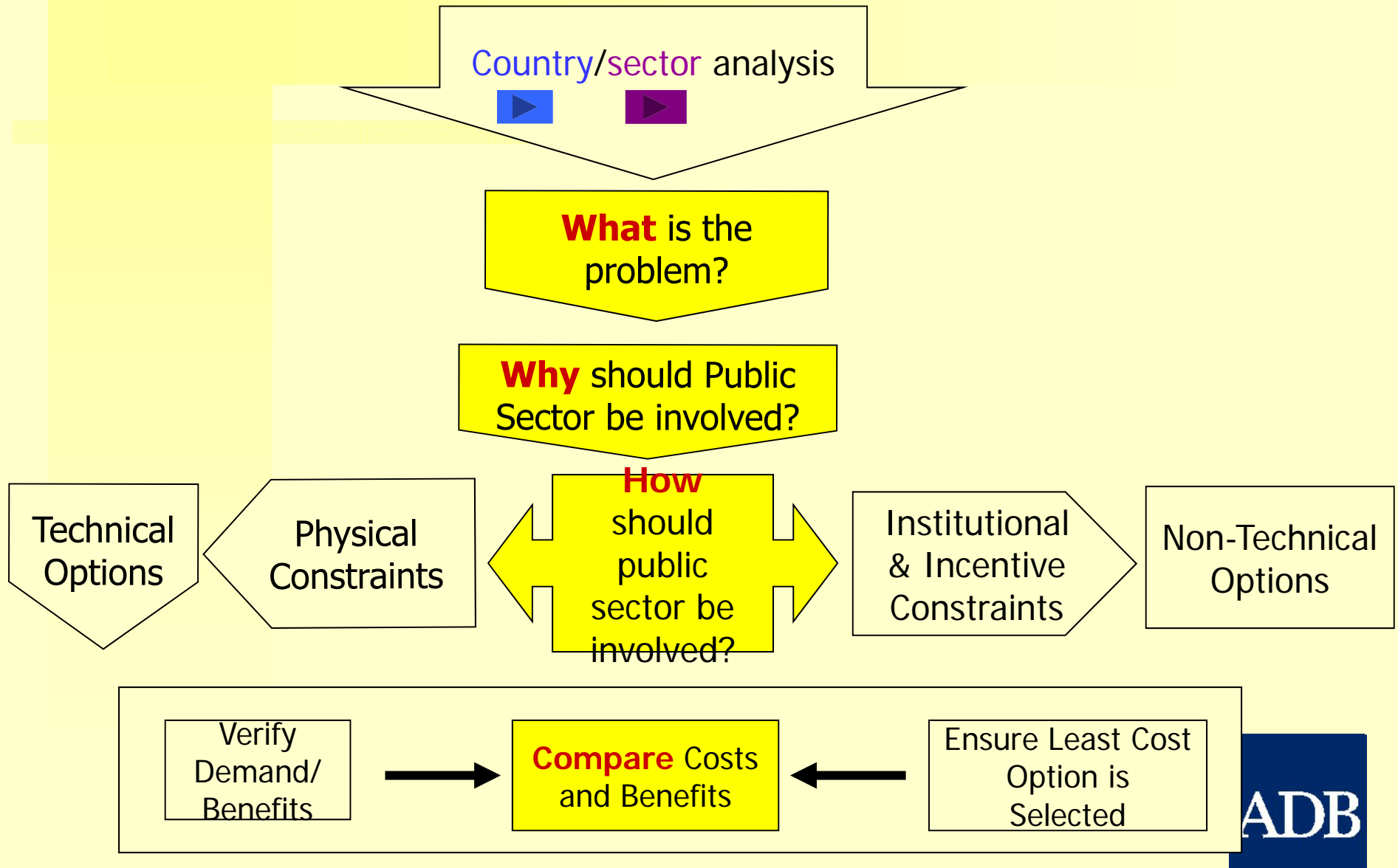


II. Applying Economic Analysis in ADB Operations

- Economic, Thematic, and Sector Work (ETSW)
 - What are the binding constraints to growth and poverty reduction?
 - Why should the public sector intervene?
- Country Partnership Strategy (CPS) and Business Plan
 - Why should ADB be involved: To establish the rationale for ADB assistance
 - What instruments should ADB use?
- Project Development (PPTAs and RRP)
 - To ensure each project is economically viable, most cost-effective, adds value, and generates results through rigorous project economic analysis.



III. Dimensions of Economic Analysis



IV. Key Areas of Project Economic Analysis

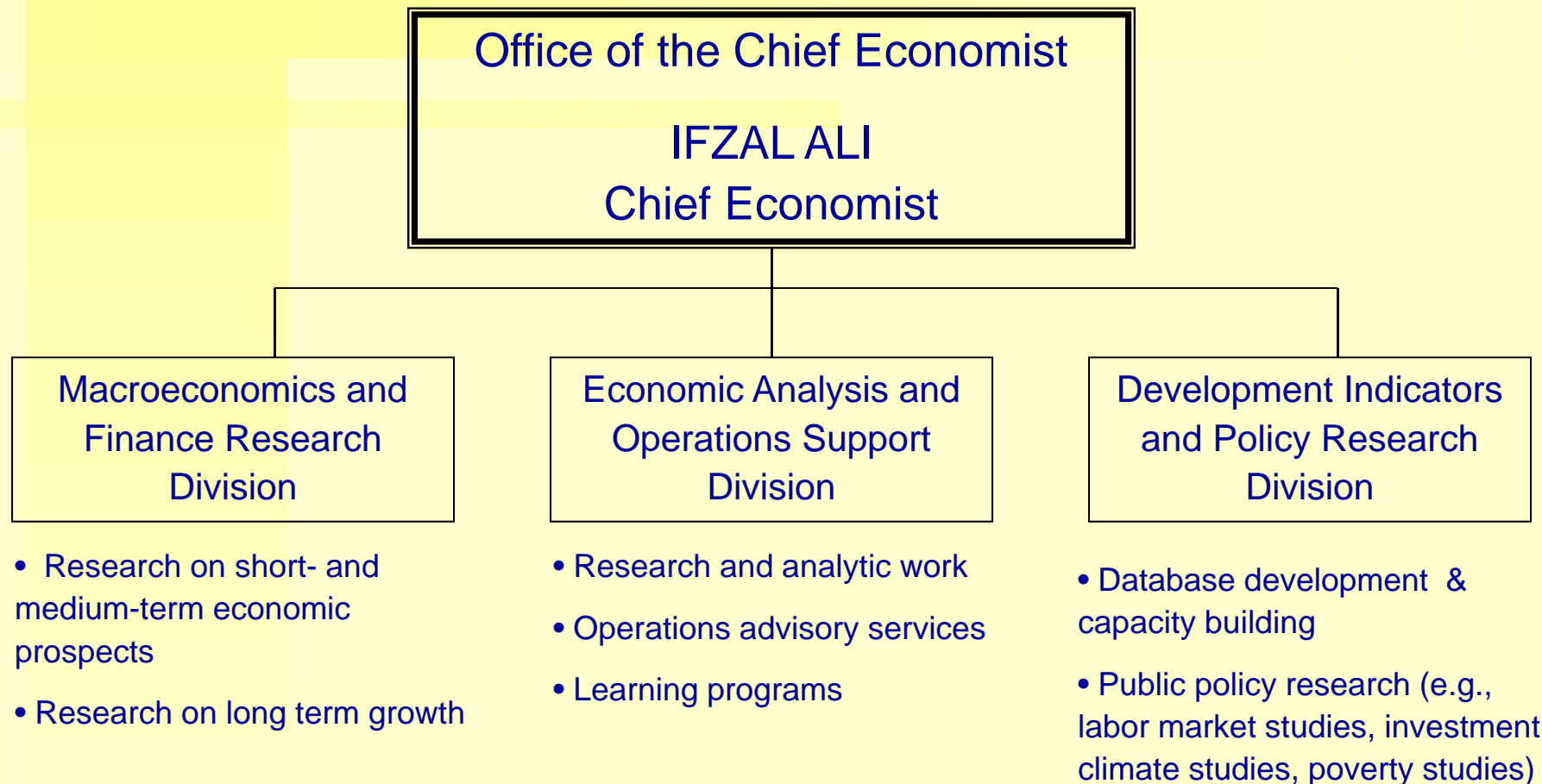
1. Assess macroeconomic context
2. Assess sector context
3. Assess demand
4. Identify economic rationale
5. Identify project alternatives
6. Identify and compare benefits and costs
7. Assess financial and institutional sustainability
8. Undertake distribution analysis
9. Undertake sensitivity and risk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



V. Highlights of Past Retrospective Reviews of Project Economic Analysis

- Improvements required in the following areas:
 - Demand analysis
 - Analysis of alternatives
 - Quality of quantitative economic analysis
 - Sensitivity and risk analyses
 - Project sustainability analysis

VI. What does the Economic Analysis and Operations Support Division of ERD Do?



VI. What does the Economic Analysis and Operations Support Division of ERD Do?

- Undertake research and analytical work on development issues relevant to ADB operations; 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 regional department colleagues; and
- Offer learning programs on economic analysis of ADB operations



Recent/Current Research Initiatives

- Inclusive Growth
 - ERD support to the LTSF review
- Diagnosing Critical Development Constraints
 - ERD response to Retro finding re lack of clear focus on and identification of binding constraints in CPS papers
 - Philippines – completed; Nepal and Cambodia – ongoing
- Economics of Climate Change
 - ERD contribution to the regional debate on economic costs and benefits of unilateral and regional actions on adaptation and mitigation
- Equity in Public Services Delivery
 - ERD contribution to increase understanding of the performance of public services, constraints to their equitable delivery, and policy challenges



VII. Objectives of This Training Course

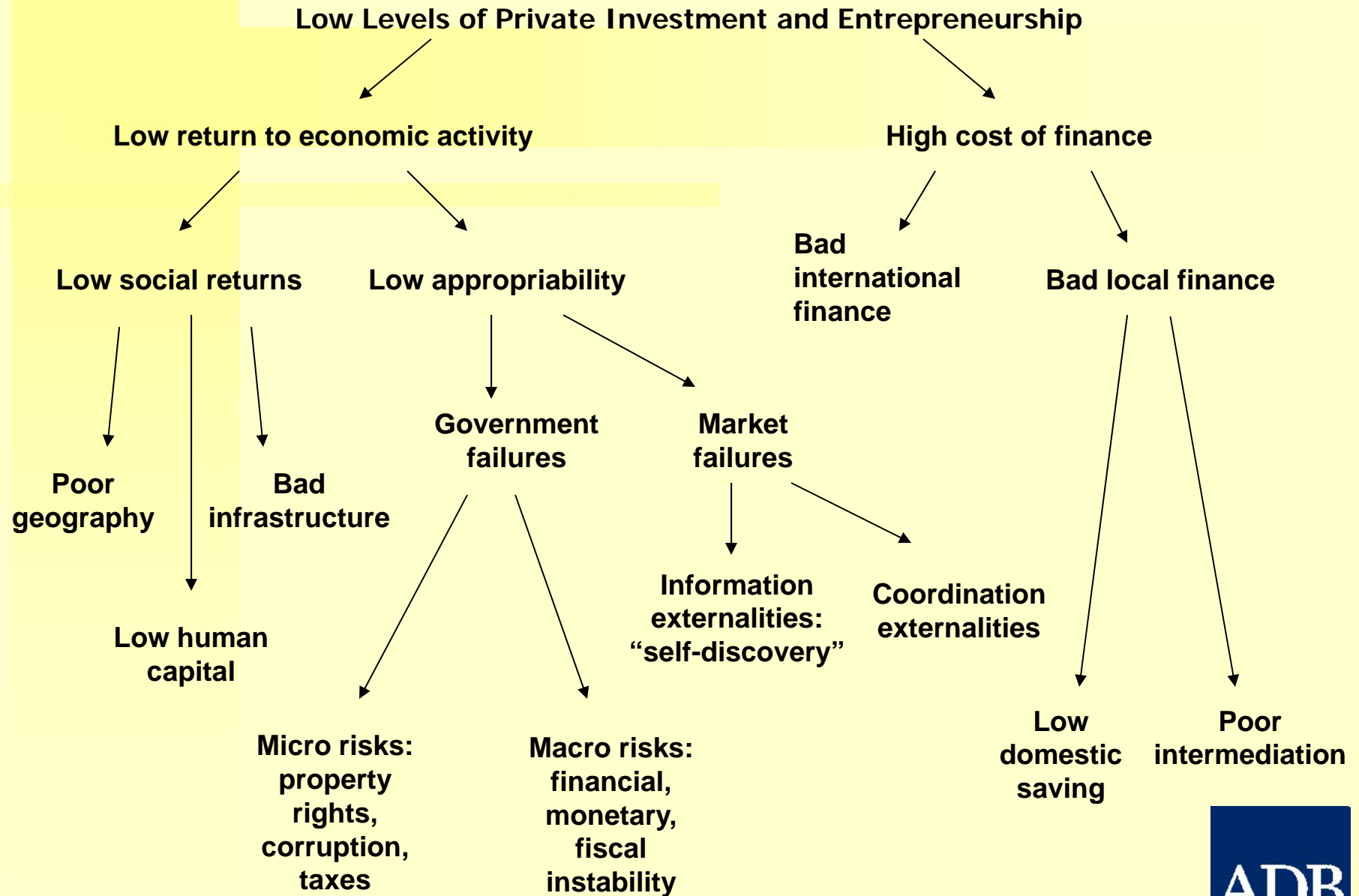
- To introduce concepts/principles of project economic analysis
- To discuss applications of techniques based on guidelines
- To identify key issues in the conduct of project economic analysis



Thank you



Growth Diagnostics



Identifying Binding Constraints at a Sector/Project Level

