LOWER MEKONG PUBLIC POLICY INITIATIVE

Technical Training in Project Appraisal for the Lower Mekong Basin

INTRODUCTION AND OVERVIEW

Ho Chi Minh City

Nov 28 - Dec 09, 2016

Outline for the Week

- Objectives and role of project/program Appraisal
- Constructing cash flows
- Alternative points of view: Stakeholder analysis
- Valuation of assets: PPP and privatization
- Alternative investment criteria
- Inflation and project appraisal
- Integrated project/program evaluation

Project Appraisal: An Overview

- Objectives of project appraisal or cost-benefit analysis:
  - Direct public sector resources to the best possible uses and think about efficient alternatives: called “Capital Budgeting”
  - Formulate projects and programs for State, Central Government, Donors and Bank funding
  - Serve as a management tool for decision making and monitoring
  - Assess cost recovery (user fees) and subsidy levels (impact on budget)
  - Form the basis for project finance, private-public partnership (PPP) and privatization of public sector undertakings
  - Develop models for negotiation with contractors, service providers, different agencies in government

The Role of Investment Appraisal

Investment Appraisal plays the following roles:

- To stop bad projects ("White Elephants")
- To develop and formulate new projects
- To prevent good projects from being destroyed during implementation
- To assess financial requirements both at the investment stage and during implementation (Medium Term Expenditure Framework, METF)
- To assess the sources and magnitudes of risk and determine how to reduce and manage risk
- A tool applicable to public as well as private sector and both to projects and programs

Stages in Project Appraisal and Approval

Different stages in project appraisal and approval:

A. Idea and Project Definition: assessing demand and why public sector? Why not private sector? Local government?

B. Pre-Feasibility Study: Rough and ready appraisal

C. Feasibility Study: Full appraisal or cost-benefit analysis

D. Detailed Design: technical and engineering aspects

E. Project Implementation and management aspects

F. Audit, Ex-Post Appraisal, Impact Evaluation

Why should a project evaluation be done in stages?

Analysis Modules in Pre-Feasibility and Feasibility Studies

Analysis Modules:

A. Financial/Budget Module

B. Economic Module including Environmental Assessment

C. Stakeholder or distributive or Sustainability Module

D. Risk Module

A. Financial Module

- Analysis of how the project will perform financially; construction of cash flow profile of project
- Integration of financial and technical variables from prior assessment of quantity and prices of inputs and outputs including capital and labor requirements
- Identify key variables for doing economic and social analysis

Key questions:

a. What are sources and costs of financing?

b. What are minimum cash flow requirements for each of the stakeholders?

c. What can be adjusted to satisfy various stakeholders?

d. What is the relative certainty of financial variables – risk variables?

B. Economic Module

- Examines the project using the whole country as the accounting entity and using economic prices
- Evaluation of externalities (positive and negative) including environmental ones

Key questions:

a. What are sizes of differences between financial and economic values for a variable?

b. What causes these differences: Taxes, subsidies, price control, other *policy distortions*?

c. Is the project economically viable?

d. What user fees can be charged from consumers?

C. Environmental Assessment Module

- Environmental Assessment augments Economic Analysis
- Identification of Environmental Impacts: both positive and negative
- Where possible, Quantifies the Environmental Impacts
- **Key questions:**

a. What are the likely environmental impacts from undertaking project ?

b. What is the cost of reducing the negative impact?

c. What are the likely environmental risks remaining after technical measures taken to reduce these risks?

d. Are there viable alternatives and what are their costs?

D. Stakeholder and Sustainability Analysis

- Distributive appraisal: Who gains and who loses - income, cost, and fiscal impacts on various stakeholders
- Identification and quantification of extra-economic impacts of project
- Basic needs: Impact of project on achieving basic needs objectives in society – nutrition, health, education, potable water, low cost housing

Key Questions:

a. In what ways does project generate beneficial and costly impacts on stakeholders?

b. Who benefits and who pays the costs?

c. What impact will the project have on basic needs?

E. Risk Analysis and Management

- Identification of major sources, types and magnitudes of risk and who bears the burden of these risks
- Impact of risk on attractiveness and sustainability of project
- Redesigning of project to redistribute and reduce risks and improve probability of favorable outcomes through changes in ownership or participation, use of insurance, financial and commodity markets, and contract/concession arrangements

Key questions

a. What are the risks and who bears them?

b. What are the impacts of risk on overall project and on particular stakeholders?

c. Can insurance, financial or commodity market instruments be used to reduce risks?

d. In short, how best can risk be managed?