

Economic Analysis for Multilateral Development Banks

Multilateral Development Banks (MDBs) usually have their own guidelines for an appraisal of investment projects or programmes in transport infrastructure. Principal objectives of MDBs together with high level priorities adopted by them, e.g. the avoidance of environmentally damaging investments and the widespread distribution of the benefits of projects throughout society, play an important role in the project evaluation process. For example, the poverty reduction impact of a project in a least developed country might have an important weight in the assessment process. Hence, economic evaluations applied by the Banks are much broader than traditional cost-benefit analysis.

For example, the guidelines of the Asian Development Bank focus on the objective of maximizing net output or income, which is often referred to as the "economic" objective; they do so in a broad manner to ensure consistency with the Bank's focus on:

- the social sectors and the environment, and
- greater project and program support to develop institutions and organizations that facilitate economically efficient market activity in the Bank's developing member countries.

The World Bank directs its resources to assisting member governments to achieve their national objectives, primarily by making the best use of their own national resources to which Bank lending is a supplement. For that reason, it places much emphasis on the institutional and



regulatory impacts of projects in recipient country. An analysis of the fiscal impact of projects is a standard requirement of Bank appraisals. The main purpose of this is to ensure that the impacts of projects on country budgets is sustainable, and that the progress of projects will not be delayed by the failure of countries to provide the domestic counterpart funding called for by the project.

World Bank projects require a positive net present value on the basis of a nationally accepted discount rate (usually 12% is adopted) and an internal rate of return of 12% or more. Although some experts have argued that this is too high, the general view appears to be that funding is sufficiently scarce, and the real opportunity cost of capital so high, that it is appropriate to set of such a relatively high cut-off rate.

Likewise, the Asian Development Bank uses a rate of 10 or 12 percent to calculate the net present value of a project, or to compare with the internal rate of return, for economic analysis.



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Key documents:

- [Guidelines for the Economic Analysis of Projects](#), Economics and Development Resource Center, Asian Development Bank, 1997. It provides guidelines for ADB staff and officials of developing member countries in assessing project proposals for economic viability and financial sustainability. It includes sections on environmental costs and benefits, the distribution of net benefits, and sensitivity and risk analysis.
- Belli, P., Anderson, J., Barnum, H. N., Dixon, J. A., Tan, J., [Economic Analysis of Investment Operations: Analytical Tools and Practical Applications](#), World Bank, 2001. This book presents general principles and methodologies that are applicable across sectors, including quantitative risk analysis. It provides both theory and practice about how to evaluate transportation, health, and education projects; and explains how to assess the environmental impact of projects. It provides a fresh look at the tools of project analysis and explains how to apply quantitative analysis of costs and benefits from multiple perspectives-- including the private sector, the public sector, bankers, and the country as a whole.

- Mackie, P., Nellthorp, J., Laird, J., and others, [Notes on the Economic Evaluation of Transport Projects](#), World Bank, 2005
These Notes provide guidance on some of issues that have proven more difficult to deal with in the application of both conventional cost benefit analysis in transport and addressing of the newer topics of interest.
The Economic Evaluation Notes are arranged in three groups. The first group (TRN-6 to TRN-10) provides criteria for selection a particular evaluation technique or approach; the second (TRN-11 to TRN-17) addresses the selection of values of various inputs to the evaluation, and the third (TRN-18 to TRN-26) deals with specific problematic issues in economic evaluation. The Notes are preceded by a Framework ([TRN-5](#)), that provides the context within which economic evaluation is used in the transport sector.

Recommended Links:

- [African Development Bank](#)
- [Asian Development Bank](#)
- [European Bank for Reconstruction and Development](#)
- [Inter-American Development Bank](#)
- [Islamic Development Bank](#)
- [The World Bank](#)

For further information

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