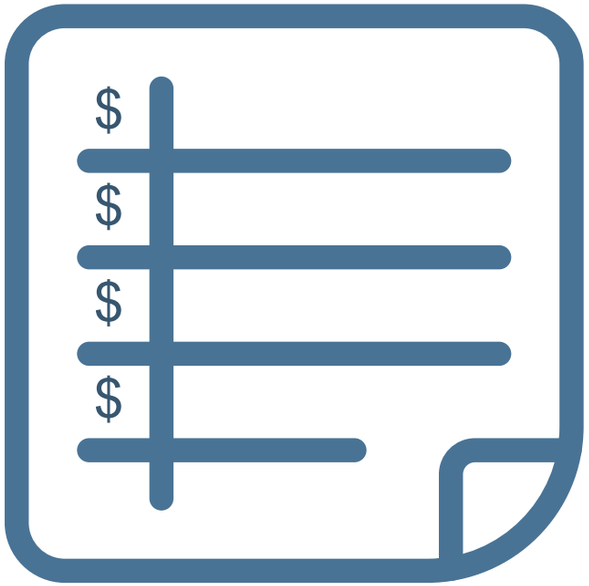
Economic and Financial Analyses in SDC

Webinar on EFA for IED NPOs in the Western Balkan, 3 March 2022



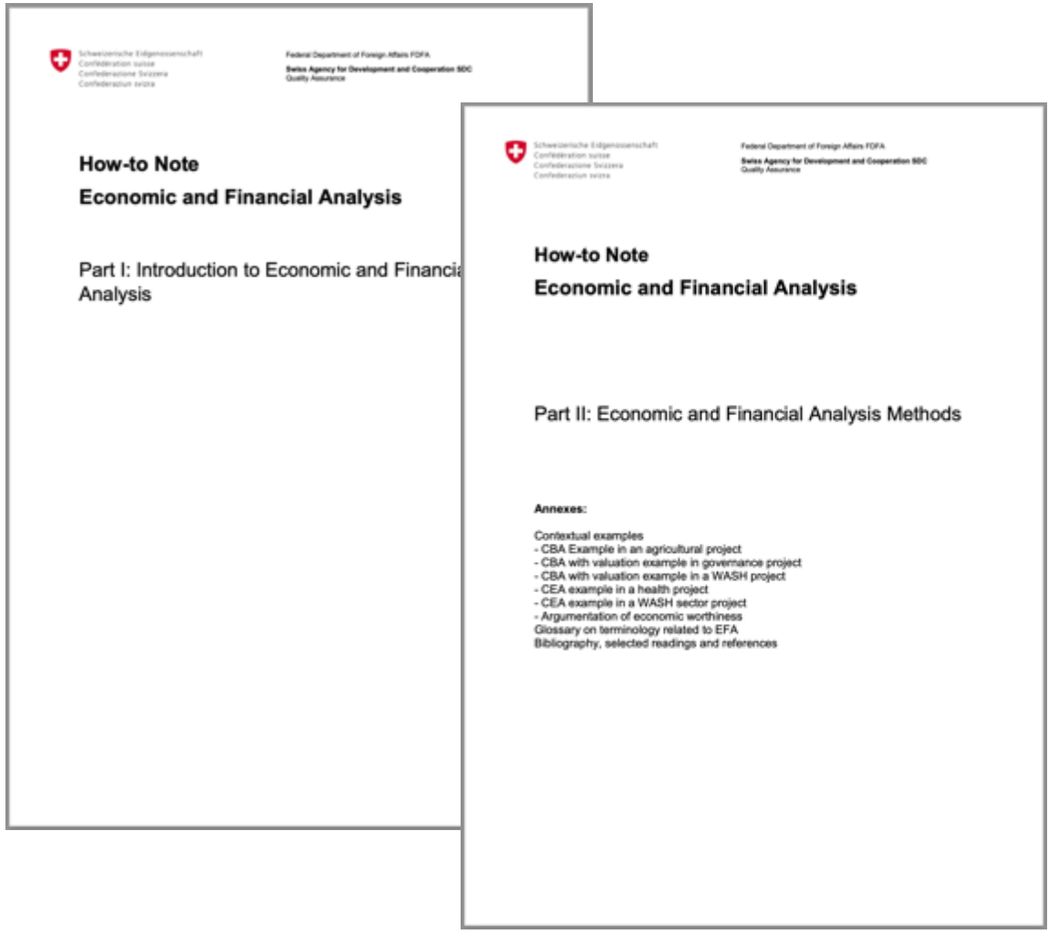
With contributions of: Andrea Inglin, Berat Thaqi (both SDC) and Roman Troxler (KEK – CDC Zurich)

About the new «how to note» (H2N)

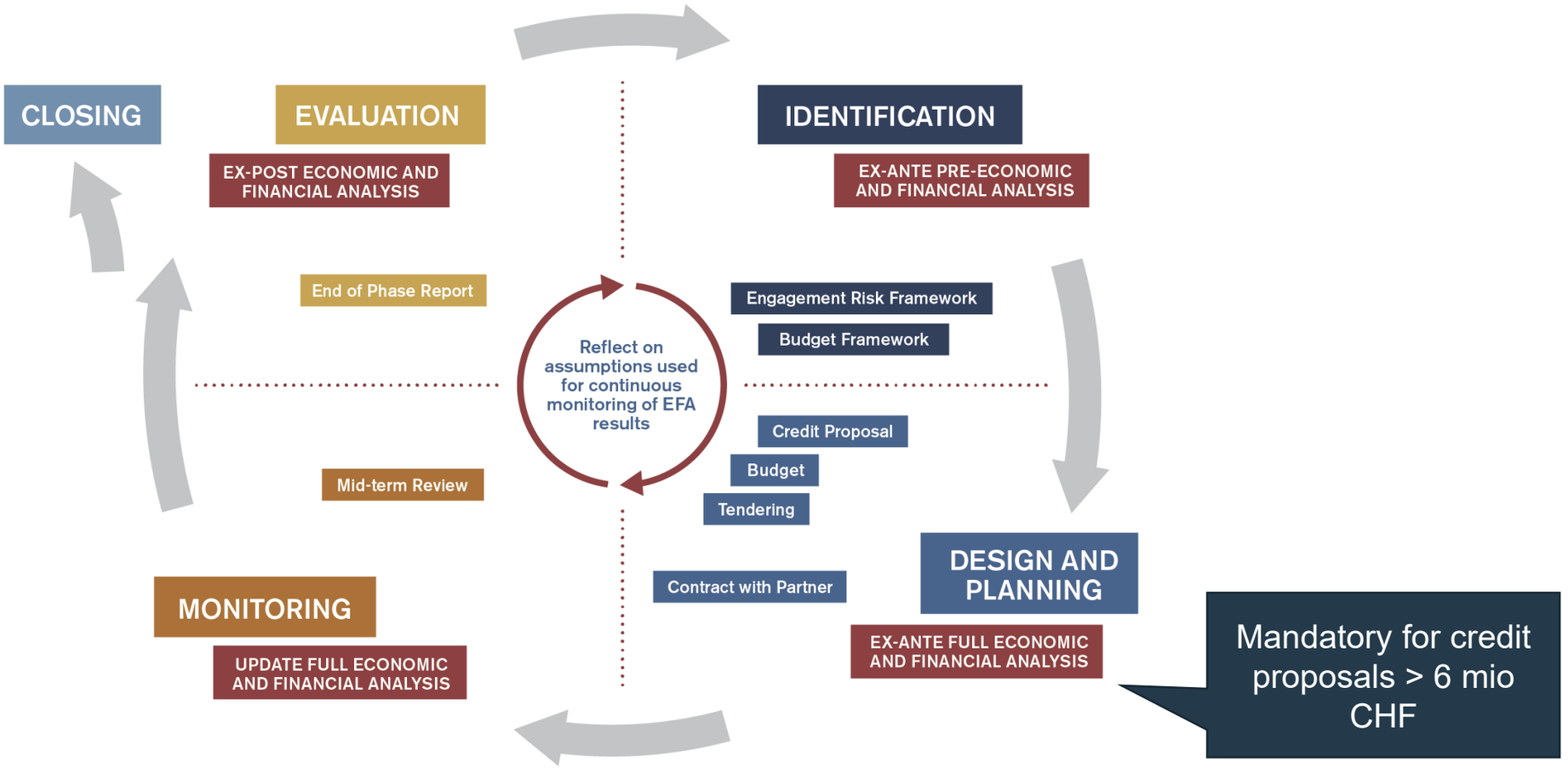
The new H2N is comprised of two parts :

- Part I provides a **basic understanding** of Economic and Financial Analysis (“EFA”) for all SDC staff.
- Part II provides **practical guidance** for SDC staff who mandate an EFA.

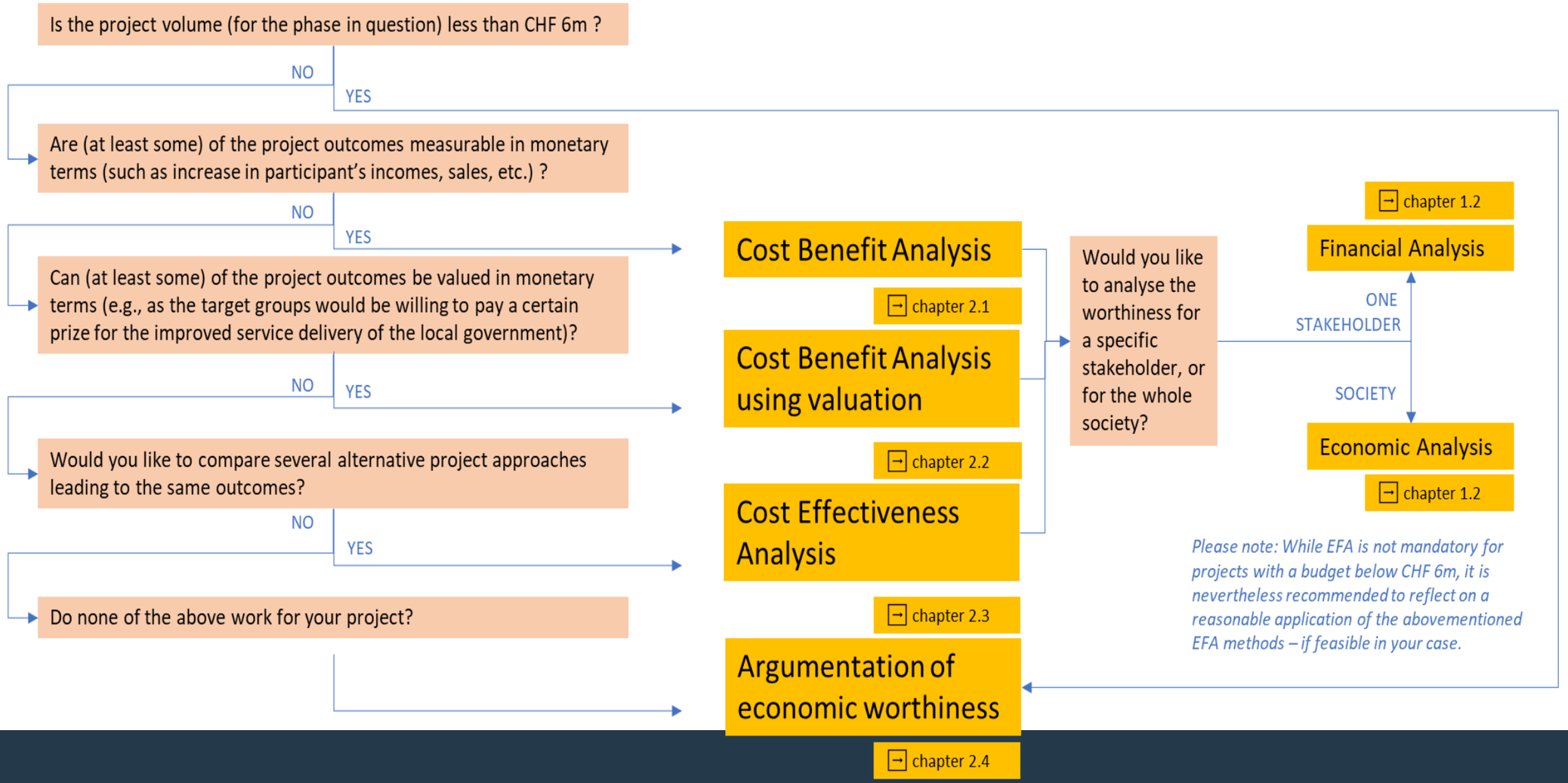
Motivation: Less technical details, provide the information really needed by the different segments of SDC staff…



EFA as a continuous process



There are different EFA tools at your disposal (1/2)



There are different EFA tools at your disposal… and a mixed methods appraoch is possible too (2/2)

- CBA is applied when a clear attribution of costs and monetised benefits can be established (for example, when X number of people improve their incomes by Y CHF).
- CBA with valuation is applied when benefits are not clearly tangible but can be valued in monetary terms.
- Cost-Effectiveness Analysis (CEA) is used to compare alternative project approaches toward a goal or objective that has been decided but is difficult to estimate in monetary terms.
- Argumentation of economic worthiness: for projects that are mainly active in the areas where it might be virtually impossible to isolate and quantify the attributable benefits. In this case, estimates of benefits should be assessed with a mix of quantitative and qualitative elements and logical connections through narratives.

Options to carry out (mandate) an EFA

The SDC can mandate an EFA to any competent institution or person, including:

- the project implementing agency itself
- consultant(s) from a local institution
- consultant(s) from an institution that is internationally active
- consultant(s) from one of the three consortia selected by the SDC, based on the tender offer and working under a frame contact for EFA:
  - Helvetas (incl. KEK-CDC as sub-contractor)
  - IKAT-HAFL
  - Vivid Economics

Any questions at this moment?

Project example: Promoting Private Sector Employment (PPSE) in Kosovo

PPSE CBA

- PPSE an MSD program
- Ex-ante financial analysis
- Steps for calculation of the PPSE Benefit- Cost Ratio
  i. Time length six years (4 years of implementation and 2 years of attributing impact)
  ii. Define Total additional costs
  iii. Define Total additional benefits
  iv. Net Additional Cash flow
  v. Decide on a discount rate (an internal assessment based on average cost of capital in Kosovo)
  vi. Calculate NPV (excel formula)
  vii. Calculate BCR (excel formula)

Total additional cost

Total additional cost =Project cost+ third party cost (private and public)+ opportunity cost of individuals

- Project cost derived from the budget (Total part 1+4)
- Third party cost =(working days X wage) x 12 months
  - Third party public (ministries and agencies) and private (sector associations and SMEs)
- Opportunity cost of individuals
  - additional 3,600 men and women benefit from seasonal, part-time or full-time employment - derives from the log frame;
  - 20% had previous income (assumption)
  - (20% x 3,600) x Lost income (200 EUR)

Total additional benefits

- Total additional benefits= income increase for individuals + SMEs

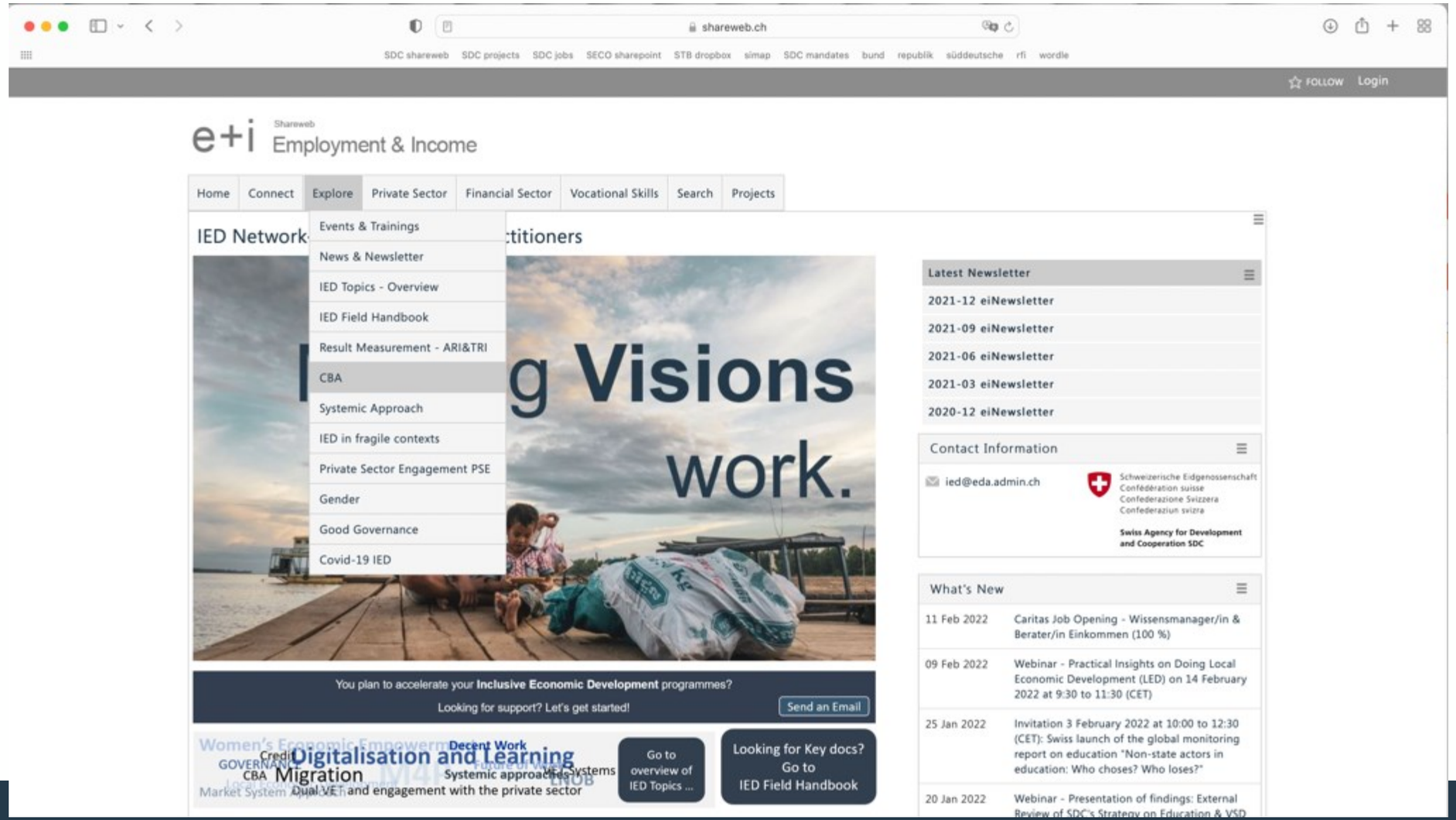
- Income increase for individuals= No. of FTEs(1,130) x PPSE attributable income (280 EUR) x two years
  - No of FTEs derive from the logframe
  - Income increase for SMEs= number of SMEs benefiting with net additonal profit (160) x 10% yearly income increase x 3 years
  - Time dimension - two and three years

Interpretations

- ***The Benefit-Cost Ratio of PPSE*** *shows a value of 1.98. This means per each CHF invested, the project returns 1.98 CHF;*
- *The project generates a net present value of CHF 5Mil by 2027, and from 2023 onwards, generates more benefits than it costs;*
- *The sensitivity analysis of the key assumptions shows that the project is highly positive. The key indicators turn unfavourable if the project fails to achieve more than 50% of its impact benefits. However, if the project reaches 52% of the impact targets (income increase), even at a high discount rate of 9%, the key metrics remain positive;*

Supporting tools for e+i topics (VSD)

e+i shareweb > explore > CBA > scroll down to «working aids»



e+i employment and income network

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Working Aid on Cost-Benefit Analysis (CBA) in Vocational Skills Development (VSD) projects

December 2019

→ Why CBA?

Cost-Benefit Analysis (CBA) is a widely used approach for assessing whether the benefits of a particular action are greater than its costs over a given period of time. A CBA can in principle be done from the viewpoint of a project's individual beneficiary (e.g. a trainee), a project partner (e.g. a training centre) or the whole society. Depending on the viewpoint, the analysis will encompass different costs and benefits. In this note we focus on benefits for a widely defined group of direct and indirect beneficiaries of a project.

The SDC undertakes financial and economic project analyses since 1996. Information on cost-effectiveness of projects and programmes is increasingly in demand and value-for-money has become a buzzword not only among development banks but also in the assessment of credit proposals at SDC's headquarters. In April 2015 SDC's Quality Assurance thus published an updated How-to-Note, on which this introduction is based. Besides this note, an open access e-learning tool has been developed in cooperation with NADEL. For all general (not VSD specific) questions, please refer to these two sources.

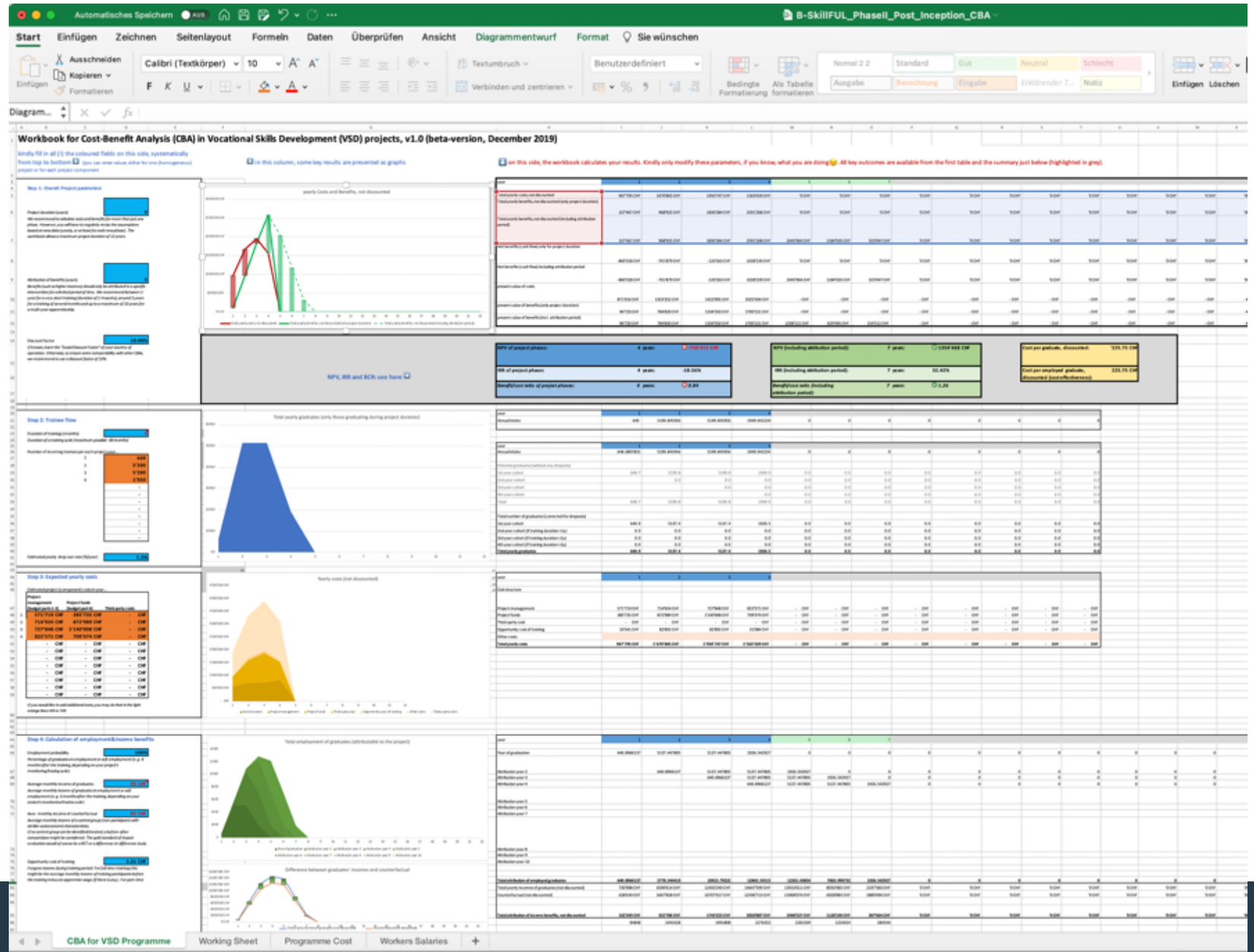
→ CBA in VSD – some basics

The purposes mentioned above do also apply to VSD. In the application and assessment of a new project idea as well as in monitoring and project evaluations we would like to know if the expected benefits from this intervention are greater than its costs *(is the investment worth it?)* – and if there might be cheaper alternatives producing equal outcomes. The tangible benefits of VSD consist primarily of employment and thus of higher incomes for graduates, while costs are mainly borne by the public sector, relating to training expenses such as investments into school buildings, equipment and trainers' salaries. However, there are a few other points that need to be taken into account when considering the rather complex context of VSD projects.

Therefore, this introductory note and the accompanying Excel workbook [Link to Shareweb] have been developed. Their aim is to support SDC program officers, project implementers, consultants and other stakeholders in assessing costs and benefits of VSD interventions, be it in the planning stage of a project (ex ante), for monitoring purposes (ex inter) or as part of a mid-term or end of phase evaluation (ex post).

In focusing on costs and benefits for a large range of stakeholders (e.g. trainees/graduates and their families, training providers and prospective employers), we adopt an approach known as 'economic analysis'1. An economic analysis is concerned with all the costs and benefits of

1 Please have a look at the above mentioned How-to-Note of SDC's Quality Assurance for a better understanding of the differences between an economic and a financial CBA.



Step 1: Overall Project parameters

Project duration (years) **4**

We recommend to calculate costs and benefits for more than just one phase. However, you will have to regularly revise the assumptions based on new data (yearly, or at least for each new phase). The workbook allows a maximum project duration of 12 years.

Attribution of benefits (years) **3**

Benefits (such as higher incomes) should only be attributed to a specific intervention for a limited period of time. We recommend between 1 year for a very short training (duration of 1-4 weeks), around 3 years for a training of several months and up to a maximum of 10 years for a multi-year apprenticeship.

End of project phase

NPV of project phases:	**4 years:**	**-750'311 CHF**
IRR of project phases	**4 years:**	**-18.56%**
Benefit/cost ratio of project phases:	***4 years:***	***0.84***

NPV (including attribution period):	**7 years:**	**1354'468 CHF**
IRR (including attribution period):	**7 years:**	**32.42%**
Benefit/cost ratio (including attribution period):	***7 years:***	***1.26***

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HPC

Cost Benefit Analyses (CBA)
&
The DCED Standard for Results Measurement

This document aims to clarify what the CBA tool and DCED framework for RM have in common, what the differences are and how programs benefit from both the CBA tool and DCED RM framework to improve program design and performance.

This document is written for SDC program managers and managers from implementing organizations. For those wishing to read more on the CBA tool or the DCED framework reference is made to other publications.

8th August 2019

CBA DCED

In the remainder of this document we simply use the abbreviations CBA and DCED when referring to SDC's ex-ante financial and economic evaluation tool, including cost-benefit and cost-effectiveness analyses, and when referring to the results measurement framework of the DCED Standard for Results Measurement.

Thank you!

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Document details

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