

# TENTH EXECUTIVE FOREST POLICY COURSE

15 – 25 MAY 2017, COLOMBO, SRI LANKA

## Recap of Sessions

*Day 7: 21<sup>st</sup> May*

*By:*

*Noa Vakacegu (Fiji)*

*Vansy Senyavong (Lao)*

*Niroj Timalsina (Nepal)*

# Topic 1: Tools for making the right choice – Social cost benefit analysis *by Dr.CTS Nair*

## Background:

- In our daily lives any **decisions** made, there is a cost & benefit
- **Choices** that we make have some cost and benefits which affects distributions in different segment in the **society & future generation**
- Eventually we will always look for options where **net benefits is more than the cost**
- In the context of **Poverty Reduction** emphasis will be on **enhancing** the net benefits that accrue to the poor

# Cost-Benefit Analysis

- One of the important **tools to assess impact of public decisions**, especially programs & projects
- Any assessment of net financial benefit it is important to take into account broader **economic, social & environmental objectives**

# Project Cycle & Cost Benefit Analysis

We looked at **2 types** of CBA

- (i) Ex-ante CBA – determine whether its feasible to carry out a project.
  
- (ii) Ex-post CBA – evaluate the performance of the project

# Scope of Cost-Benefit Analysis

- On whose perspective? - **individual, organization, society or specific group**
- Considering the **cost & benefit** (*what you will apply and the benefit you will get out of it*)
- When adjusting cost & benefit it has to reflect **economic, social & ecological** aspect
- When **discounting** there is point of comparison on what you will spend today to what you can benefit in 20 years time.

# Scope of Cost-Benefit Analysis

- Expressing **Net Effect** of the project:
  - **NPV** = Discounted benefit minus Discounted cost
  - Benefit-Cost **Ratio** =  $> 1$  investment considered as viable
  - **IRR** = if exceeds prevailing rate of interest than the project considered viable

# Scope of Cost-Benefit Analysis

- CBA address issues for individual **entrepreneurs**, **national economy** & **society**.
- as we broadened the above framework **cost & benefits** will **change**

# Evolution of CBA

There are **4 stages** & each has its own specifics:

1. Financial analysis – C & B from narrow perspectives of **financial profitability**
2. Economic analysis – C & B assessed from **economy** & can be corrected for **distortion**
3. Social analysis – C & B revalued taking into account specific **social objectives** like poverty reduction, income distribution etc
4. Environment analysis – broadened to capture **environmental impact** either positive or negative



# Key steps in Cost - Benefit Analysis

1. Determine the objectives



2. Identify costs & benefits



3. Value costs & benefits



4. Aggregate costs & benefits



5. Sensitivity analysis



6. Consider distributional impact



7. Prepare recommendation

# Aggregation of Costs & Benefits

- **Aggregation** of cost & benefit from different **programmes & projects** at different **time period**
- For different projects C & B brought to a common point for comparison. The entire C & B discounted depriving their present value.
- Rationalizing discount & rate is one of the most disputed issue

# Cost-Benefit Analysis and Social Objectives

Cost-benefit analysis on **Social Objectives** modified to consider assessment of **social impact** such as:

- livelihood of the poor & impact on provisions of basic needs
- income distribution
- gender aspect – economic & social wellbeing of women
- impact on backward regions
- poverty reduction etc

# Challenges in the Use of Cost-Benefit Analysis

- CBA considered an important tool but people sometimes misusing it
- Benefits can be overestimated and Cost can be underestimated
- Correct identification of entire cost & benefit stream
- Finding right price that reflects true value/cost to society
- Choosing discount rate
- The tendency to come up with one aggregated number that capture all dimensions
- “Dash Board” approach which gives different indicators

## Summing Up

- **Social CB analysis** an important tool for decision making & **pro poor programmes & project** should be the **priority area**
- Meaningful SCBA requires **reliable** information
- In the absence of **transparency**, **bias** could creep in some stages which can cause **adjustment** which can defeat the purpose of CBA
- Widespread in the **misuse** of SCBA