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CBA Framework for structural instruments

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Content

- 1. Financial analysis :**
 - a. Justification and quantification of EC contribution (FNPV, profitability, funding gap)
 - b. Financial sustainability of the project
- 2. Economic analysis :**
 - a. Relevance and legitimacy of public intervention
 - b. Project relevance compared to alternative options
- 3. Sensitivity and risk analysis :** check the solidness of the financial and economic indicators and then verify the actual sustainability



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Pay attention to the assumptions

- **Costs :**
 - Unitary operating costs
 - Unitary investment costs
- **Revenues :**
 - Demand forecasts;
 - Tariffs assumption : affordability, bill recovery rates,...


→ *Those assumptions determine the funding gap and thus the EC funding, settled once for all in the decision !!*
- **Externalities :** horizontal assumptions (value of time, CO2, value of life,...)
- Underlying **macroeconomic** assumptions : GDP growth, inflation, currency exchange rate, discount rates.



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Key methodological aspects

- Only *cash flows* are considered :
 - Non accounting items like depreciation and contingency reserves are not included;
 - Tariffs are nevertheless designed to ensure full cost recovery – including depreciation;
 - « actual » replacement costs are nevertheless considered
 - Integration of the residual value
- Incremental method : without / with project scenarios;
- Compliance with Community objectives : polluter pays principle;
- Neutrality regarding public private partnerships



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Proper use of CBA

- Economic analysis should also be used to rank alternative options and might be referred in the public consultation
- CBA should also be used for other national / regional projects (when proportionate) in order to prioritise and justify investment projects;



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Efficiency and expertise

- Need for appropriate expertise within the managing authorities, with 1 or 2 trained experts;
- Necessary ownership from the beneficiaries (assumptions impact the public funding);
- Need to develop tailored sectoral guidelines for « common » projects (energy, water, solid waste, transport,...) – validated with the EC
- Availability of JASPERS assistance;
- Reference to the Commission working paper n°4 and the new comprehensive CBA guide :
http://ec.europa.eu/regional_policy/sources/docoffic/working/sf2000_fr.htm



Financing analysis and art 55

- Needed for all revenue generating projects, irrespectively of their amount
- Only concerns projects generating **net** revenues (partially paying back investment costs)
- Only concerns projects **financed by users** => excludes projects financed by the tax payer (shadow tolls or availability payments for eg)
- When relevant and applicable (certain works concession), the public grant requested should be an award criterion