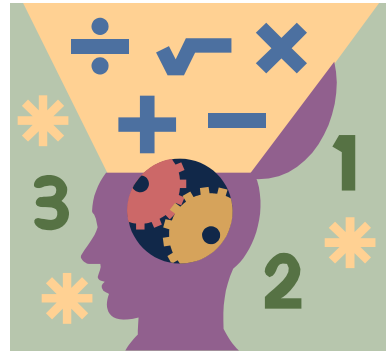


Cost benefit analysis: introduction and basics



Paula Holland

Manager, Natural Resources Governance

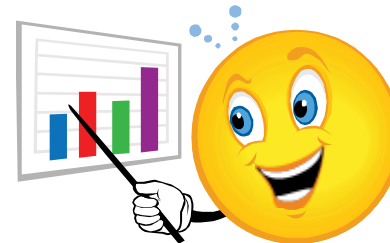
Technical Support Services programme

SOPAC/ SPC



This presentation

- CBA - what is this?
- What is it used for
- Integration of climate risks
- Examples
- Challenges





CBA: what is it?

Framework to assess the merits of a project from the perspective of society (not a single individual)

Essentially involves:

- Measuring the gains and losses ('benefits' and 'costs') from a project or activity to the community using money as the measuring rod
- Summing those monetary values of the gains and losses and expressing them as net community gains or losses





What is it used for?

1 Decision making:

- Is a project or activity worthwhile?
 - Should we invest in this project?
- Which of these projects/activities should we choose?
 - Which project will give us the best pay off per dollar invested?
 - Which project will generate the highest value to society once we have paid for it?

2 Project assessment:

- Has investing in this project been worthwhile?

3 Information generated can also inform how to proceed/adjust project implementation

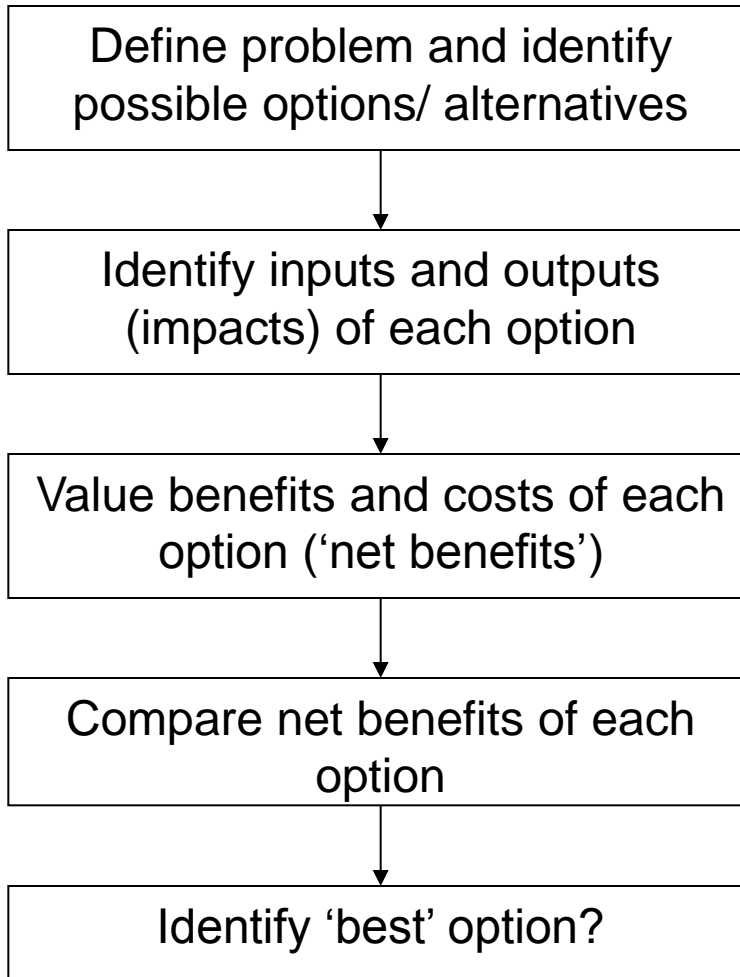




Broad steps



Framework



Why CBA? Why not 'normal' decision making?

Common ways to make decisions in the Pacific:

- voting systems – perceptions, individual gains
- consensus – 'Pacific Way'

Coastal project: protect reefs through a groyne; improved fisheries and diving but ...

... interferes with long shore drift and erosion further along the coast





Voting versus CBA

Voting? Yes/ No: 3:2 – the ‘Yesses’ win

| Stakeholder | Benefits (\$) | Costs (\$) | Net benefits (\$) | Vote |
|--------------------------|---------------|------------|-------------------|-----------|
| Sasa village | 10 | 20 | -10 | -1 |
| Fisheries group | 20 | 10 | 10 | 1 |
| Dalo village | 20 | 40 | -20 | -1 |
| Ecotourism/ diving group | 20 | 15 | 5 | 1 |
| Scientific community | 15 | 10 | 5 | 1 |
| Overall social impact | 85 | 95 | -10 | -1 |



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Consensus?



CBA?



Same example, different impacts?

| Stakeholder | Benefits (\$) | Costs (\$) | Net benefits (\$) | Vote |
|--------------------------|---------------|------------|-------------------|----------|
| Sasa village | 10 | 20 | -10 | -1 |
| Fisheries group | 25 | 10 | 15 | 1 |
| Dalo village | 20 | 40 | -20 | -1 |
| Ecotourism/ diving group | 25 | 10 | 15 | 1 |
| Scientific community | 20 | 10 | 10 | 1 |
| Overall social impact | 100 | 90 | 10 | 1 |

Do you foresee any challenges in executing this project?



CBA advantage

Forced to consider

- the *overall impact* of projects *from the perspective of the group*
- the *distribution* of benefits and costs across the community

⇒ More informed decisions

⇒ identification of risks (eg., distributional issues) and strategies

⇒ CBA outcomes can *feed into* voting and consensus systems

⇒ more informed decisions





Economic feasibility vs. financial feasibility



CBA

Net values

Benefits and costs

Social impacts

Environmental impacts

Distributional impacts

All community groups

≠



Financial feasibility

Profits

Revenues and costs

Monetary impacts

Groups that pay or receive money only





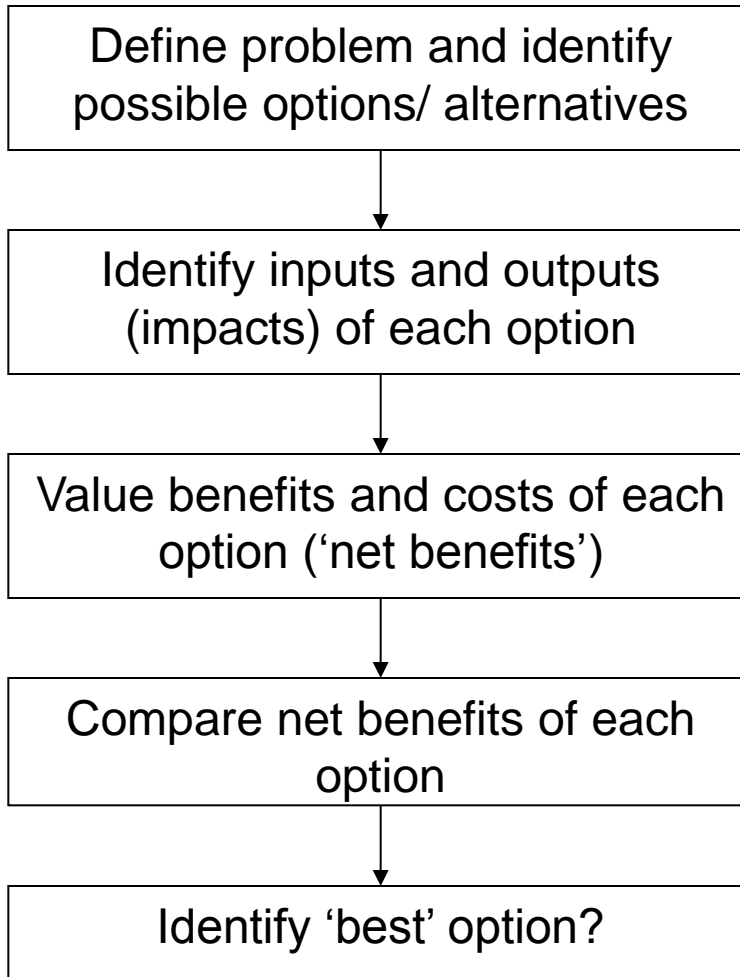
Fitting in climate change?



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Framework



Climate predictions

Sensitivity analysis



Role in national planning?

- Project proposals appraisal and selection
 - ⇒ Investment planning and implementation
 - ⇒ Policy planning and implementation
- Regulatory frameworks for development control (eg., sometimes part of EIA protocol etc.)
 - ⇒ Budgetary Planning (Overall national and sectorial)



Kiribati *ex ante* CBA example



- ⇒ Need for community participation
- ⇒ need for strategic communication
- ⇒ need for business plan

- ⇒ project underway (€2.2 + €1)
- ⇒ *extra* €2 million to end 2015

Images courtesy Arthur Webb, SOPAC



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Challenges

Data, data, data....

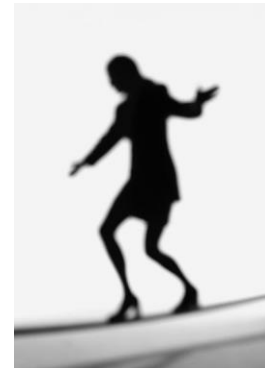


Inputs



Selling the outputs (it's all about balance)

- Net benefits vs. social need
- Projects with expensive start up costs





Vinaka vaka levu



Questions?

