

## **CHECKLIST FOR APPLYING FINANCIAL AND ECONOMIC ANALYSIS TO PROJECT PREPARATION AND MANAGEMENT**

The EcoFin Manual provides a comprehensive methodology. Should one systematically apply all the stages of analysis described in it, to every project?

Ideally, yes. One could then decide whether or not to fund the project (from the EcoFin point of view) on the basis of a maximum of information. However, in reality the answer is no: analysts rarely have sufficient time and data. Choices must thus be made depending on the nature of the project, but -

**the following questions must be asked, and answered, in all cases:**

### **1. Links with the Logical Framework**

- Can the **key problem** the project seeks to resolve be quantified / valued in monetary terms?  
Has it been?
- Does the **Project Purpose** (- see PCM Manual) correspond to the problem? Can it be quantified / valued in monetary terms? Has it been?  
- i.e. will the project solve the problem entirely, or how much of it?
- Can the **Overall Objective** be reached by the project? By How much?

### **2. Analysis of the main Entities (Stakeholders)**

- **Have all the main entities (stakeholders) significantly affected by the project been identified** – i.e. the planned beneficiaries, as well as other groups which may be significantly affected?
- **If doubts exist** as to any stakeholders net benefits (that is do all entities benefit more from the project than it will have to contribute for?), have they been analysed separately (i.e. separate cash flows<sup>1</sup> been prepared)?
- Is it clear that **no stakeholders will face solvency problems** during the funding period, and that the **project benefits are sustainable** in the long term? The issue at stake is ability<sup>2</sup> to meet costs (in particular recurrent costs).

### **3. With and Without Project Situation / Alternatives**

- Have the **without project, with project** and **incremental** ('with project' minus 'without project') situations been summarised in 3 separate cash flows?
- Do **alternatives exist** and were they analysed in sufficient detail?

---

<sup>1</sup> In the EcoFin Manual, a "Flow Balance Account" is also used for the Analysis. The Cash Flow takes into account all monetary flows that actually take place, whereas the Flow Balance Account also includes non monetary in- and outflows (in kind contributions and benefits). Both statements are needed (cash flow for checking the solvency of the project and flow balance account to properly reflect use of resources).

<sup>2</sup> Especially poorer groups, whether or not they are among the intended beneficiaries

#### 4. Quantifying Benefits, and comparing them to Costs

- Have the cash flows been done in **constant, market prices** (= without inflation)?
- Have the cash flows been established for the **full estimated duration of the benefits**, and not only for the period of project financing?
- Have **all costs been included** in the cash flows? - including recurrent costs, cost recovery mechanisms, in kind contributions, working capital requirements?
- Can some or all benefits be **quantified / valued** in monetary terms?
- If some benefits cannot be directly valued in monetary terms, can **proxies** be used (e.g. vehicle operating cost savings or willingness to pay)? If so, has a **cost/benefit** analysis been performed?
- If yes, have the usual **profitability criteria** been calculated through a Cost/Benefit analysis (NPV, IRR, payback period,...)?
- If most benefits cannot be valued either directly or using proxies, what **indicator of benefit can be defined (OVI) to compare with costs (Cost Effectiveness analysis)**? Are such ratios reasonable in **comparison** with similar projects elsewhere?
- Have the **main unit costs been assessed** for all projects (be they tangible or not)?

#### 5. Financial and Economic Analysis (Narrow or Wider Perspectives)

- Have the most relevant questions been asked, using the corresponding kinds / techniques of Financial and / or Economic Analysis (see table annexed)?
- Has **Financial Analysis** been undertaken **before** the Economic Analysis?
- **Economic Analysis - Effects Method** (if relevant)
  - *What are the economic consequences in market prices of undertaking the project in the way proposed, especially on*
    - *economic growth?*
    - *government budget?*
    - *foreign exchange resources?*
    - *income distribution?*
- **Economic Analysis - Shadow Pricing**
  - *What are the macro-economic policy objectives that lead to the Shadow Prices used in the analysis (costs and maybe benefits)*
  - *Have the method to convert market prices (financial prices) into Shadow Prices, the conversion factors and their source, the value given to possible positive or negative externalities been explained?*
  - *What are the results of the shadow pricing<sup>3</sup> and how sensitive are they?*
  - *How well does the project compare with similar projects (taking account of price distortions<sup>4</sup>)*
    - *in the same country,*
    - *in other countries/regions,*
    - *that may be in competition for awarding funds (loan or grant)?*

---

<sup>3</sup> Economic NPV, Economic IRR, and possibly DRC (Domestic Resource Cost)

<sup>4</sup> Concept of opportunity cost. Can one justify from the point of view of the Nation (or the region) the funding of this project rather than to commit scarce resources to other projects?

## 6. Assumptions and Risks

- Were the main assumptions **clearly stated and realistic**? - for both **costs and benefits**? - for **discount** rates? in international prices etc?
- Is the degree of risk assessed (sensitivity analysis) – for 3 scenarios: pessimistic, average and optimistic?
- Were the (Excel) **spreadsheets** used for the calculations, provided?

## 7. Overall Assessment of the Project

- How **efficient** is the project? - *compare the results and resources: Cost Effectiveness & Cost/Benefit*
- How **effective** is the project? -*compare results (cash flow) and project purpose*
- Will the project face solvency problems (maintenance, running costs; affordability, especially for the poor) during implementation? How **sustainable** are the benefits for the main Stakeholders in the long term?
- Compare the expected **impacts** with the economic policy objectives. Are the impacts of the project all acceptable?
- How relevant is the project for the final beneficiaries? What is the economic **relevance** of the project with regard to the priorities and reforms undertaken by the **government**? with regard to the policies and priorities of the **Commission**?
- **Hence, can the project be recommended for funding** from the Financial and Economic points of view? If not, are the grounds clearly explained and suggestions made for reformulation? What improvements can be suggested?

## ANNEX Contribution of EcoFin Analysis to the Evaluation Criteria, and assessment tool

Criteria	Questions	Relevant EcoFin Analysis	CO *	CT *	S *	E *
<b>Efficiency</b>	<p>Is the project using a minimum of resources and are resources used efficiently?</p> <p>Are the returns of the project adequate (only for projects with tangible benefits)?</p>	<p><b>Cost Effectiveness</b> (financial and, if applicable, economical - i.e. using shadow prices)</p> <p><b>Cost Benefit Analysis</b><sup>5</sup> (financial and, if applicable, economical using shadow prices)</p>				
<b>Effectiveness</b>	<p>What is the extent to which the project reaches its purpose?</p>	<p><b>Financial &amp; if necessary Economic Analysis</b>, comparing results (<i>cash flow</i>) with project purpose</p>				
<b>Sustainability</b>	<p>Do the main stakeholders face solvency problems during the implementation of the project?</p> <p>Can the main stakeholders meet the recurrent costs after the end of the project?</p> <p>Is the project competitive (hence viable) internationally?</p>	<p><b>Financial Analysis</b> of the main stakeholders' interests</p> <p><b>Financial Analysis</b> of the main stakeholders' interests</p> <p><b>Economic Analysis</b>: shadow pricing</p>				
<b>Impact</b>	<p>What are the effects of the project on the national economy (economic growth, government budget, foreign exchange, and income distribution)?</p>	<p><b>Economic Analysis</b>: effects method</p>				
<b>Relevance</b>	<p>Does the project address the real needs of the intended beneficiaries?</p> <p>How well does the project fit with national priorities and reforms undertaken by the government?</p> <p>How well does the project match policies and priorities of the EU?</p>	<p><b>Financial Analysis</b> of the intended beneficiaries (<i>stakeholders</i>)</p> <p><b>Economic Analysis</b> (<i>effects method and shadow pricing</i>)</p> <p><b>Economic Analysis</b> (<i>effects method and shadow pricing</i>)</p>				

\* CO=carried out (has the analysis been carried out?), CT= correct (have the methods been applied correctly?), S= substantiated (have the calculations been explained and is the data provided reliable?), E= exhaustive (is the analysis exhaustive or should additional analyses be carried out?)

<sup>5</sup> i.e. profitability