

Issues from the Practical Application of CBA in Major Transport Projects

Matthew W. Arndt

*Head of Rail & Road, Projects Directorate
European Investment Bank*

Round Table »Improving the Practice of Cost-Benefit Analysis in Transport « Queretaro,
October 22nd 2010

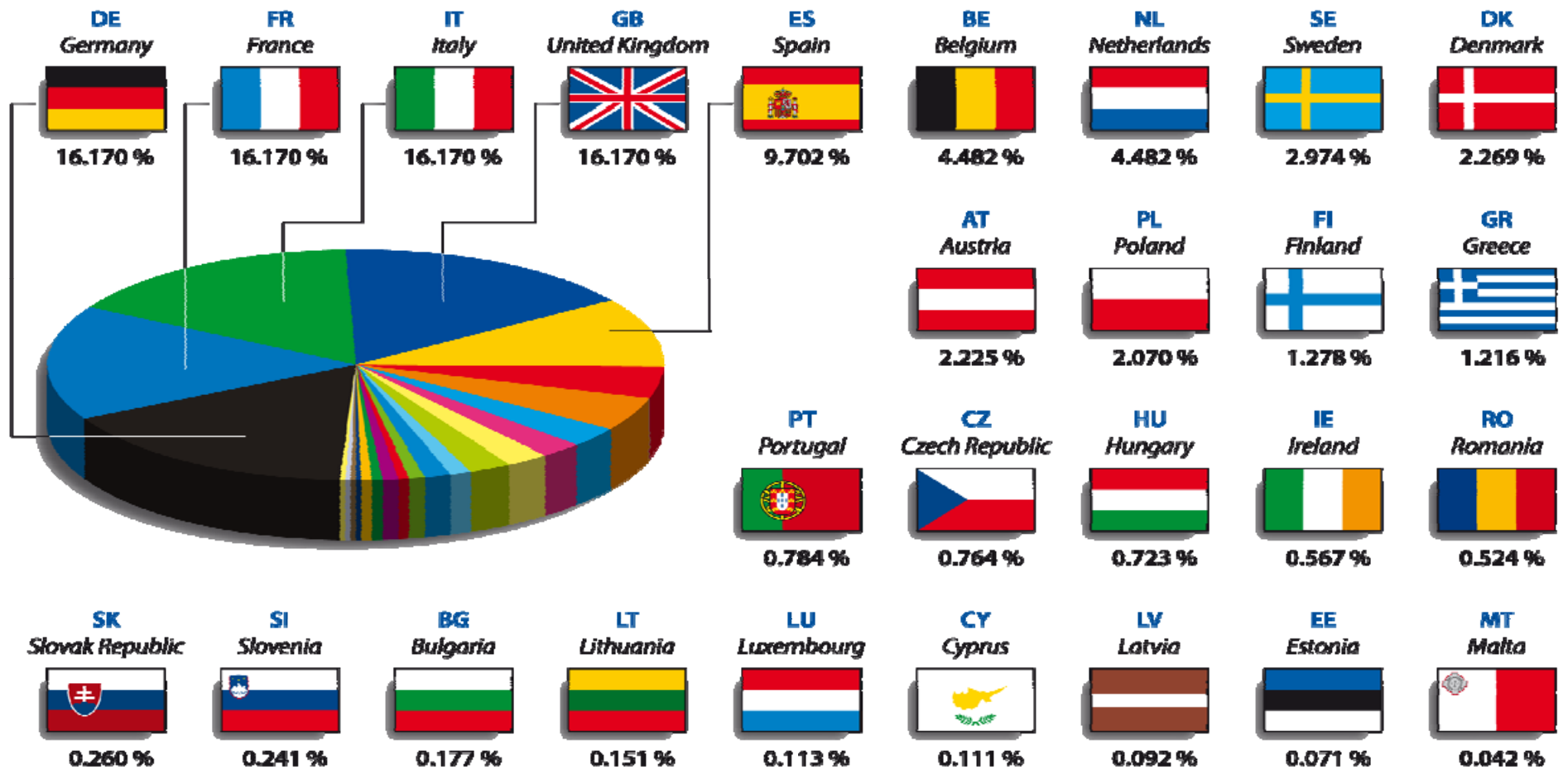
The European Investment Bank (EIB)

Long-term Finance Promoting European Objectives



- European Union's long-term lending bank set up in 1958 by the Treaty of Rome.
- Shareholders: 27 EU Member States
- Governance
 - Board of Governors – EU Finance Ministers
 - Board of Directors - Member States & European Commission
 - Management Committee –EIB's executive body
 - Audit Committee – independent, non-resident

Breakdown of the EIB's capital



- Within the Union:
 - **Cohesion and convergence**
 - Small and medium enterprises
 - **Environmental sustainability**
 - Innovation 2010 Initiative (i2i)
 - **Trans-European Networks (TENs)**
 - Sustainable, competitive and secure energy
- External Mandates

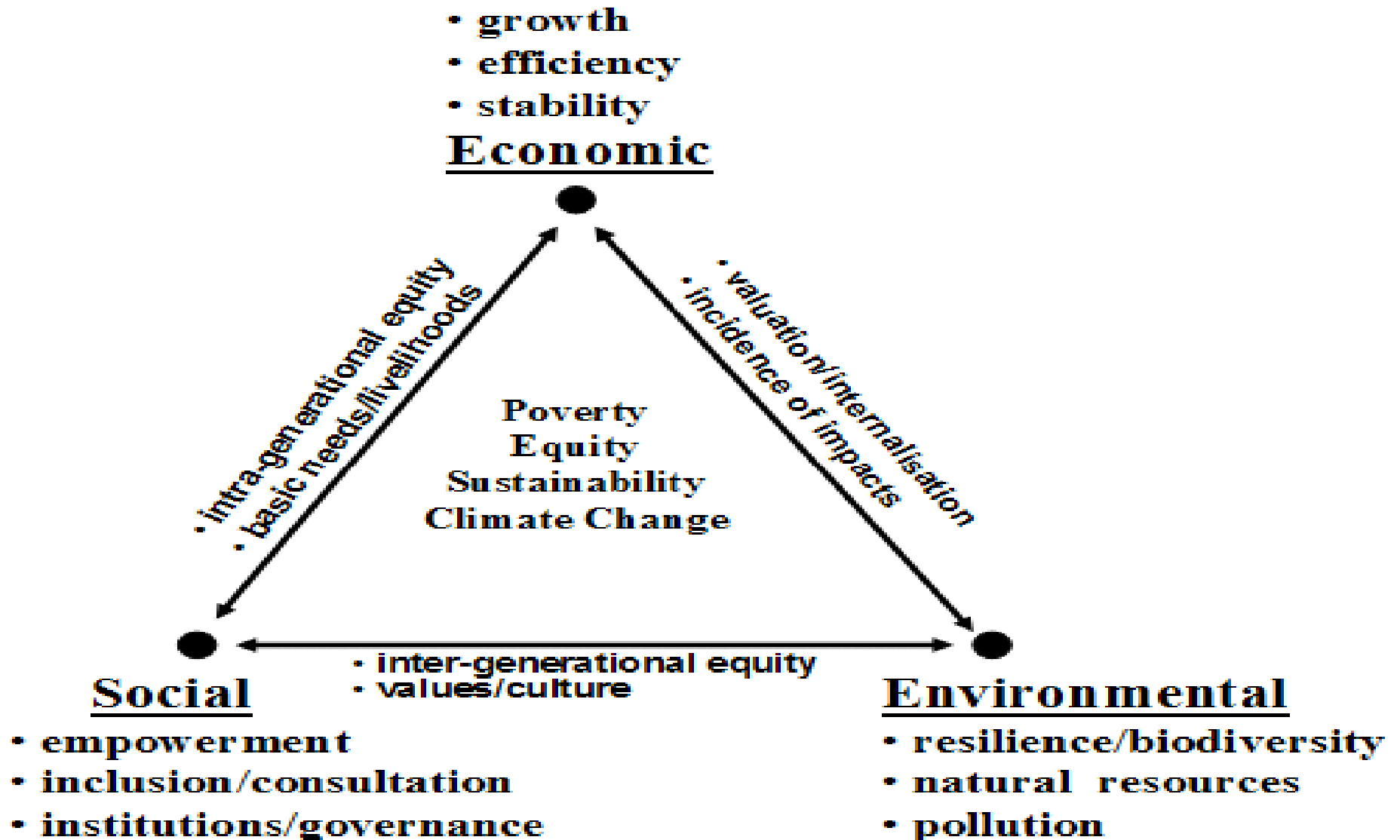
The EIB project cycle



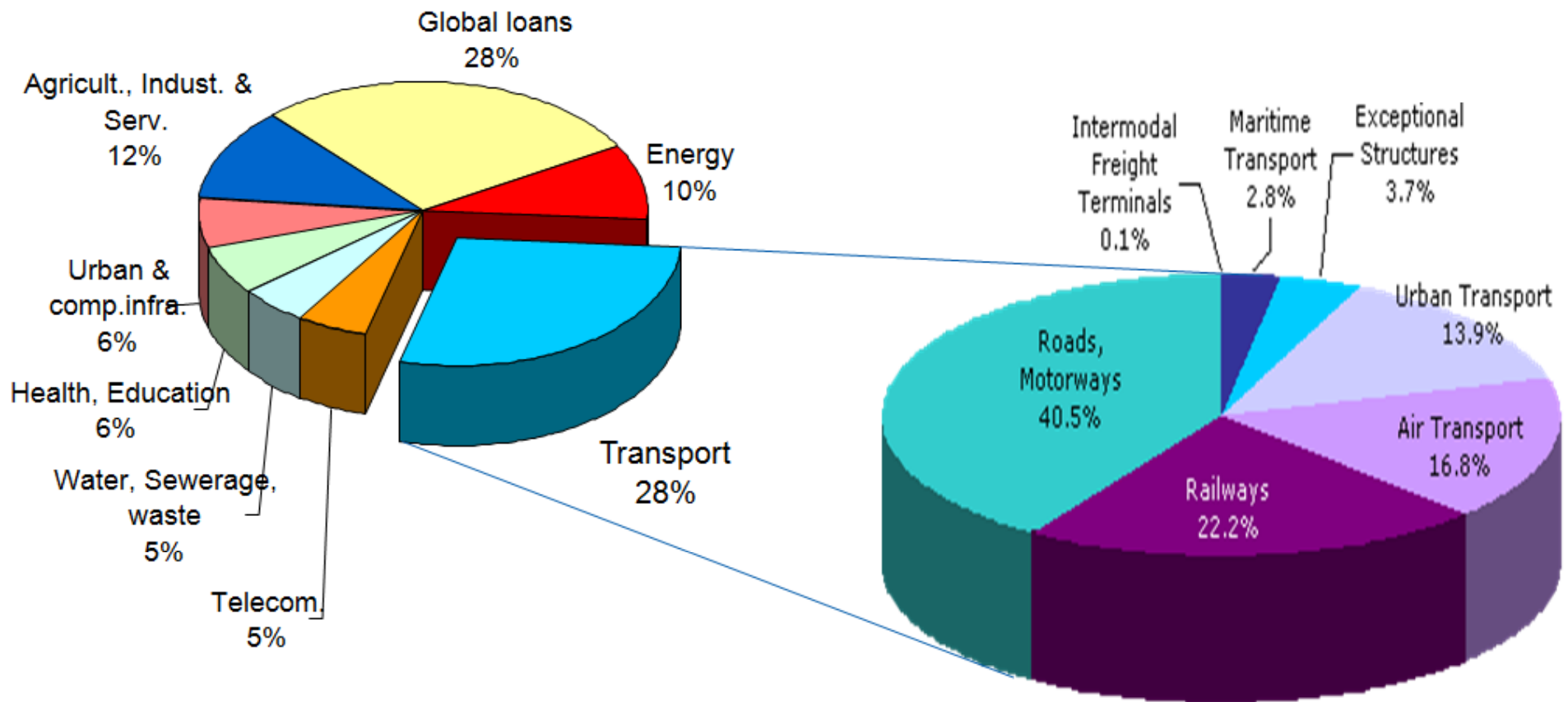
EIB can provide loans, equity participation in Infrastructure Funds (Marguerite, InfraMed,...), and guarantees (LGTT: Loan Guarantees for TEN-T)

EIB is also active in technical assistance and advisory roles

Sustainability a multi-dimensional concept



EU total lending by sector 1998-2008: EUR 423 billion



EIB is actively involved in developing all major sub sectors of the Transport Sector, intermodality, interoperability and telematics.

The EIB Transport Lending Policy (Roads)



- *“All road projects should demonstrate appropriate economic returns. Projects with high economic value (such as rehabilitation of dilapidated roads and new roads in highly-congested settings) should be given priority. Road projects with weak economic value – notably projects with excessively large increases in capacity – should be avoided.”*

Cooperation with EC and EU member states on economic appraisal methodologies

The case for harmonised socio-economic appraisal of transport projects

- Best practice for sound analyses
- Consensus within the EU
- EU financing (DGREGIO, DGTREN, EIB, bi-lateral development agencies, other IFIs)

EIB's efforts coordinated with other stakeholders:



- RailPag
- Blue Book (Jaspers)
- DG REGIO Guide to Economic Appraisal

RailPag: Guiding the appraisal of transport projects:

- Competition in the system. Traffic forecasts
- Do-minimum alternatives
- Regulation and interoperability requirements
- Network effects
- Externalities
- Capacity
- Life span and residual values
- Effects and Stakeholders. SE cells
- Non-monetised effects
- The case for an SE Matrix

CBA in the EIB's decision processes

Why we care: EIB mission and statutes, sector policy

What we do: CBA for virtually all transport projects

- Analyze project information from external sources
- Produce CBA at different stages of the internal project cycle
- In some cases, advisory or technical assistance efforts on projects, programmes or policies

What we use: limited data, limited time, limited internal resources

What we try to produce:

- Simple
- Transparent
- Consistent
- Reliable

Critical Issues for CBA

CBA is perceived as limited in important ways

- Uncounted benefits (especially regional development, agglomeration benefits and network effects)
- Equity and distribution issues
- Easy to manipulate, black-box effect

Is that criticism fair?

- Importance of traffic analysis – but depth and quality will remain uneven
- Uncounted costs, too (eg severance)
- Would (sometimes costly) improvements change quality of decisions? Some bold assumptions
- Importance of developing stable/reliable teams of analysts, good communication and demonstrable track record (ex-post and monitoring)
- Examples of model validation (audits of assessment tools, benchmarking)
- Good performance in CBA often well correlated with other quality criteria

The “Value-Added” Framework

Many decision criteria need to be considered in an uncertain and complex environment

EIB governance considers projects in all sectors

A single overall assessment framework is being experimented:

- Three independent “pillars”: Alignment with EU objectives, Project quality and soundness, Financial Value of EIB intervention

- Economic efficiency a significant criterion within Pillar 2, measured by CBA wherever possible – scoring of EIRR dependent on sub-sector (case of rail, urban transport)

- Thresholds on 3 pillars, thresholds on CBA, Ranking by overall score, and overall portfolio targets

A way to steer upstream work and project sourcing? Or a way to make just about anything possible?

Some Orientations for the Future

Methodological improvements remain topical but should remain in tune with resources – in the meantime gross simplification is legitimate as long as it does not distort decisions

International consensus strengthens the position of CBA: role of international organizations in disseminating best practice – Example of HEATCO

More work is needed on explaining CBA to politicians and public at large

Get the incentives right to reduce manipulation of numbers

Combining CBA with multi-criteria approaches can help to illustrate terms of the decision and trade-offs

For more information...



<http://www.eib.org/>

arndt@eib.org