Cost-Benefit Analysis in World Bank Projects

Description

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by Andrew Warner, Independent Evaluation Group, June 2010. Available as pdf

Cost-benefit analysis used to be one of the World Bank?â??s signature issues. It helped establish its reputation as the knowledge Bank and served to demonstrate its commitment to measuring results and ensuring accountability to taxpayers. It was the Bankâ??s answer to the results agenda long before that term became popular. This report takes stock of what has happened to costbenefit analysis at the Bank, based on analysis of four decades of project data, project appraisal and completion reports from recent fiscal years, and interviews with current Bank staff. The percentage of projects that are justified by cost-benefit analysis has been declining for several decades, due to both a decline in standards and difficulty in applying cost-benefit analysis. Where cost-benefit analysis is applied to justify projects, there are examples of excellent analysis but also examples of a lack of attention to fundamental analytical issues such as the public sector rationale and comparison of the chosen project against alternatives. Cost-benefit analysis of completed projects is hampered by the failure to collect relevant data, particularly for low-performing projects. The Bankâ??s use of cost-benefit analysis for decisions is limited because the analysis is usually prepared after making the decision to proceed with the project.

This study draws two broad conclusions. First, the Bank needs to revisit the policy for costbenefit analysis in a way that recognizes legitimate difficulties in quantifying benefits while preserving a high degree of rigor in justifying projects. Second, it needs to ensure that when costbenefit analysis is done it is done with quality, rigor, and objectivity, as poor data and analysis misinform, and do not improve results. Reforms are required to project appraisal procedures to ensure objectivity, improve both the analysis and the use of evidence at appraisal, and ensure effective use of cost-benefit analysis in decision-making.

Tags

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2. Reports
3. World Bank

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