



# Cost-Benefit Analysis in Cohesion Policy framework 2014-2020

## CBA FORUM ENVIRONMENT

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## Secondary legislation related to major projects for 2014-2020

- ❖ **THE METHODOLOGY TO UNDERTAKE IQR / THE REVENUE-GENERATING PROJECTS** - the Commission Delegated Act no 480/2014 (OJ 2014 L 138 13.05.2014);
- ❖ **"NOTIFICATION FORM" AND IQR REPORT TEMPLATE** - the Commission Implementing Regulation (EU) No 1011/2014 of 22 September 2014 (OJ L 286, 30.9.2014, p. 1);
- ❖ **COST-BENEFIT ANALYSIS (CBA) and "APPLICATION FORM"** – the Commission Implementing Regulation 207/2015 (OJ L38 of 20 January 2015);

### *Non-Legislative guidance:*

- ❖ **CBA GUIDE** – published on 19 December 2014
- ❖ [http://ec.europa.eu/regional\\_policy/index.cfm/en/information/publications/guides/2014/guide-to-cost-benefit-analysis-of-investment-projects-for-cohesion-policy-2014-2020](http://ec.europa.eu/regional_policy/index.cfm/en/information/publications/guides/2014/guide-to-cost-benefit-analysis-of-investment-projects-for-cohesion-policy-2014-2020)



# **COST BENEFIT ANALYSIS IN CONTEXT OF COHESION POLICY**

- **PROJECT CONCEPT AND FEASIBILITY** – what is my project and is it feasible?
- **FINANCIAL ANALYSIS** – does the project need EU financing and will it be sustainable?
- **ECONOMIC ANALYSIS** – is the society better off with the project?
- **RISK ASSESSMENT** – how to deal with uncertainties and make sure the project goes ahead as planned?

# CONSIDERATIONS FOR CBA IN ENVIRONMENT

- ❖ Environmental projects are mostly driven by compliance with EU Directives in environmental sector;
- ❖ Should we need CBA at all, or cost-effectiveness method would be sufficient for some sectors?
- ❖ Cost of infrastructure is relatively significant; affordability considerations;
- ❖ Willingness-to-pay for water and waste treatment in Europe and sustainability of investments in longer term;
- ❖ Many externalities for projects also linked to non-use values;
- ❖ Phasing of projects vs. self-sufficient unit of analysis;
- ❖ Correct reflection of all costs and revenues; life-cycle approach for selecting options

# FINANCIAL ANALYSIS FOR ENVIRONMENT

- ✓ 4% financial discount rate in real terms
- ✓ Fixed reference periods

Sector	Reference period (years)
Water supply/sanitation	30
Waste management	25-30
Other sectors	10-15

- ✓ Flat rates: 25% for water sector, 20% for solid waste
- ✓ Determination of costs, revenues and residual value, in compliance with polluter-pays principle, full-cost recovery, affordability,
- ✓ Note: Financial analysis is required for major project, irrelevantly of the method selected by the MS in application of Article 61 (operations generating net revenue after completion);

## **FINANCIAL ANALYSIS – REINFORCED ELEMENTS**

- ✓ **Requirements for financial profitability indicators in secondary legislation (FRR(C), FRR(K), FNPV(C), FNPV(K));**
- ✓ **Reduced FDR from 5% (in 2007-13) to 4 % (national approaches possible if justified)**
- ✓ **More emphasis on ensuring financial viability (sustainability) in the project implementation and operation; in case of pre-existing infrastructure also in relation to beneficiary (not only in relation to the project)**
- ✓ **Calculation of FNPV (Kp) for private equity to avoid overcompensation;**

# ECONOMIC ANALYSIS

- ✓ **Key steps of economic analysis:**
  - ✓ Fiscal corrections
  - ✓ From market to shadow prices (**simplification**: if conversion factors not available at national level and in absence of significant market distortion  $CF=1$ )
  - ✓ Evaluation of non-market impacts
- ✓ **Social discount rate of 5% for cohesion MS and 3% for others; different SDR if justified**
- ✓ **Calculation of the economic performance indicators ( $ENPV>0$ ,  $ERR>SDR$  and  $B/C>1$ )**
- ✓ **The main economic benefits by sector to be considered**
- ✓ **Simplified economic analysis in special cases (e.g. projects driven by compliance) – cost-effectiveness analysis with qualitative assessment of main economic benefits**

# RISK ASSESSMENT IN 2014-2020

- ✓ **Sensitivity analysis – similar to 2007-2013**
- ✓ **Qualitative risk analysis including measures for risk mitigation and risk matrix**
- ✓ **Optional: probabilistic risk analysis (required only if residual risk exposure is still significant)**
- ✓ **The minimum risks to be taken into account (from Implementing Regulation)**
- ✓ **National approach to risk matrix to facilitate risk assessments of beneficiaries**





# Thank you for your attention

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For info or further questions on this seminar and the activities of the JASPERS Networking Platform, please contact:

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