



Schweizerische Eidgenossenschaft
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Regional Governance Seminar WBA Division in Skopje 15-17 March 2016

Case study **Cost-effectiveness and Cost-benefit**

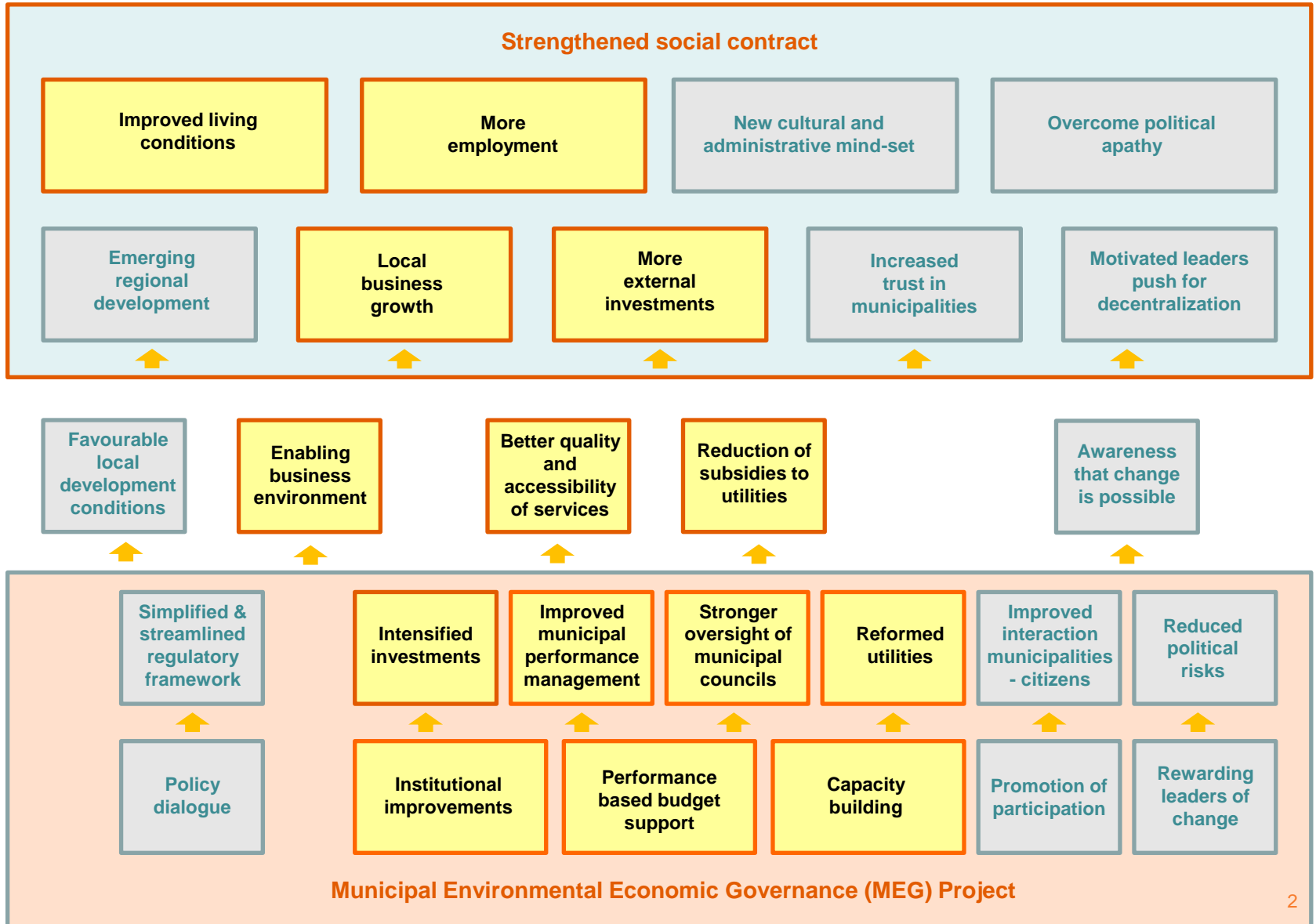
Municipal Environmental and Economic Governance (MEG)

SDC project in the Local Governance and Municipal Services Domain

Srecko Bajic, The Embassy of Switzerland in Bosnia and Herzegovina

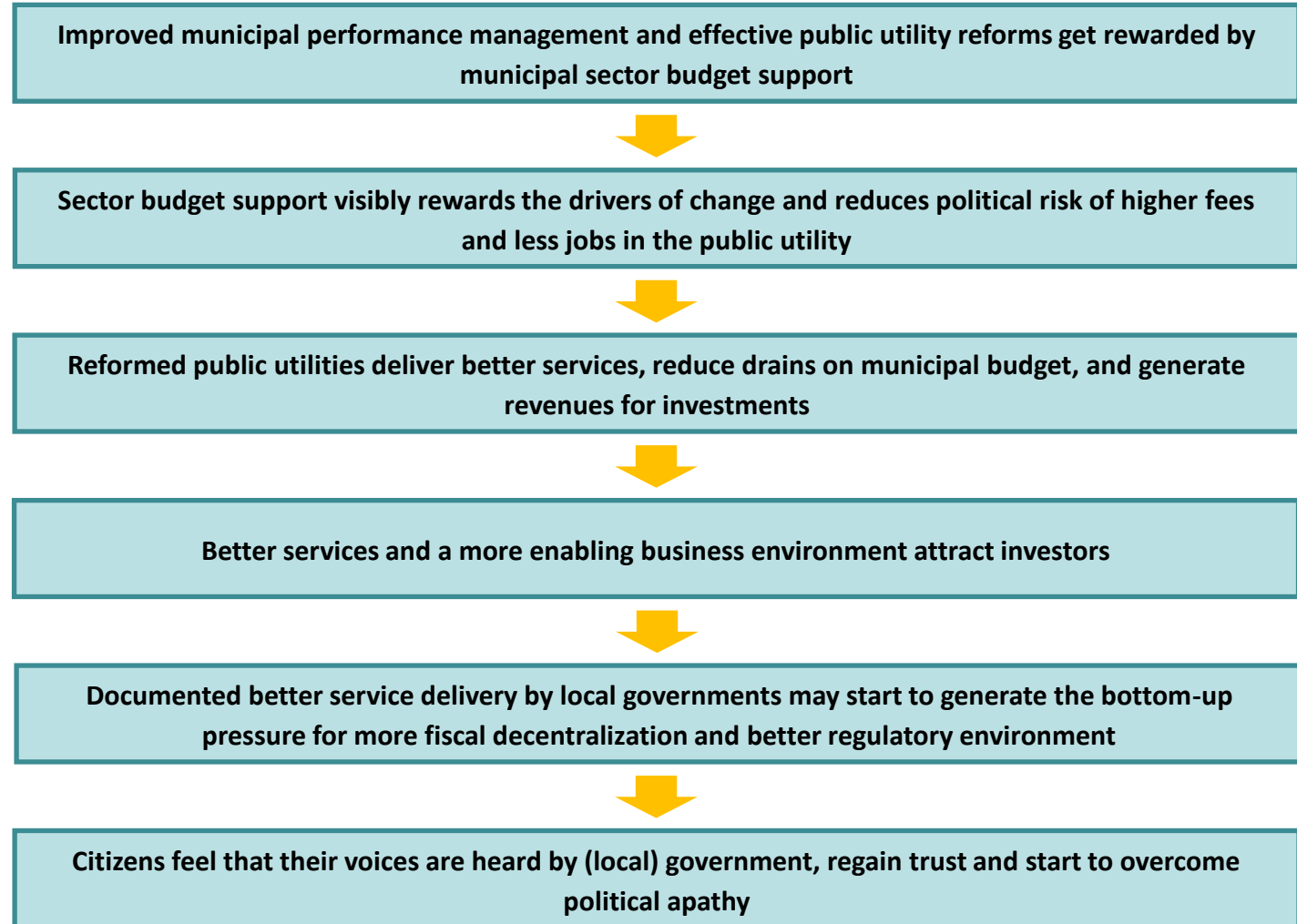


MEG Intervention Logic





MEG Impact Hypothesis





BiH projects cost-effectiveness

- ❖ **GOV-WADE** – improved municipal governance and infrastructure – 8 years project investment **CHF 21/capita** (8 mil) → **CHF 190/capita** (72 mil) external investments – investment in environmental sector mobilises development potential and external sources of financing

- ❖ **ILD** - Cost-benefit analysis of investment in strategic planning (proxy for benefits for people)
 - strategic planning is profitable
 - brings more and better focused development investments

cost-benefit ratio CBR

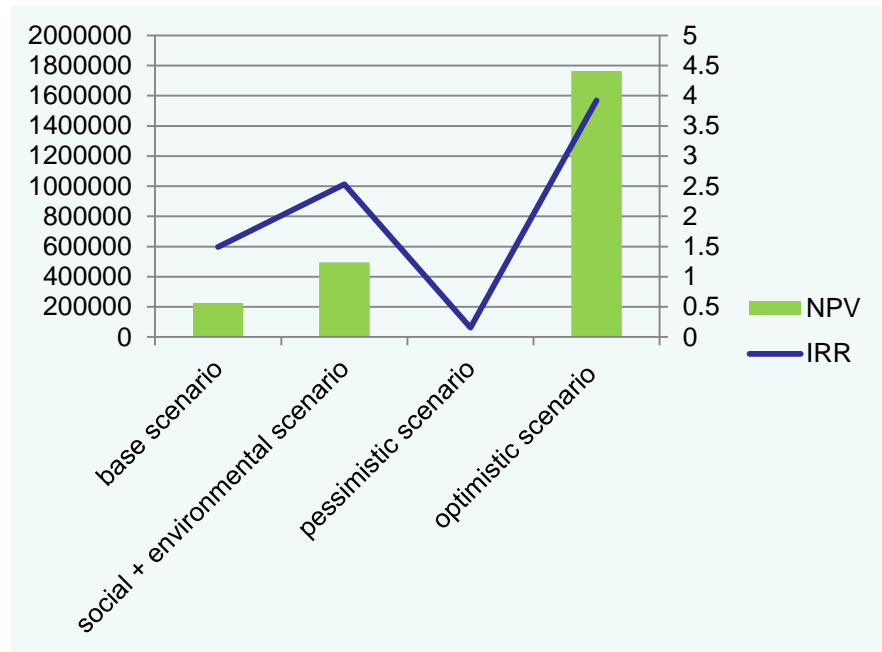
1 – 16

net present value NPV

0.05 – 1.76 mil BAM

internal return rate IRR

16 – 392%



- ❖ **IFC Sub-national competitiveness** – savings to businesses due to the simplification and streamlining of business related administrative procedures at local level
 - **USD 9** mil direct annual savings in 2 municipalities (Banja Luka and Novo Sarajevo)



MEG cost-effectiveness

❖ Costs

- CHF 12 mil Swiss investment (*CHF 17/capita*) in 18 municipalities in 4 years
 - *with population of 700'000 people*
- CHF 4 mil financial contribution of partner municipalities (*CHF 6/capita*)
 - *co-financing of environmental and economic infrastructure improvements of at least 50%*
- CHF 120/beneficiary (*total Swiss investment*) for improved infrastructure and services
 - *serving directly 100'000 people (total Swiss investment CHF 12 mil / 0.1 mil people)*
- CHF 500/household for access to water services for additional 8'000 households
 - *(Swiss infrastructure investment CHF 4 mil / 8'000 households)*

❖ Benefits

- Ability of municipalities to attract external development funding
 - *CHF 160/capita (72 mil) of attracted external investments - calculation based on GOV-WADE model)*
- Savings for water utilities due to increased efficiency
 - *CHF 13 mil (14%) annually - reduction of non-revenue water (technical and financial losses)*
- Increased income for utilities due to extended provision of water services
 - *CHF 180/household (1.44 mil/8'000 households) annually*
- Savings for businesses due to improved regulatory framework/ administrative services
 - *USD 19 mil (USD 27/capita) annually – calculation based on IFC Sub-national competitiveness model*
- Increased income of businesses and population due better performing economy and increased employment opportunities
 - *2% increase of private sector investments and 180 jobs created directly due to the project assistance*



MEG CB/CE considerations

❖ Building blocks of the cost-effectiveness

- GOV-WADE model – municipal budget support embedded in the planning cycle
- Prioritizing and combining interventions in environmental and economic sectors
- Selection of committed partner municipalities and clustering (*area-based approach*)
- Financial/ in-kind contributions of beneficiaries and private sector (*incl. citizens' contributions*)
- Improved performance management and concrete CE measures (*municipalities and utilities*)
- Optimisation of structures, processes and resources in water utilities (*incl. staff reduction*)
- Transparent and competent procurement processes
- Synergies and matching resources with other interventions in the project area (*Swiss and other*)

❖ Tracking the cost-effectiveness / cost-benefit (CE/CB) dimension

- Embedded in the project and partners monitoring and performance management systems
- Tracking activities included in annual plans of the project and partners
- CE/CB dimension Included in the project baseline and exit assessments
- Ad hoc CE/CB analyses of relevant/ critical project components
- Using statistics and business records of municipalities and water utilities
- Regular reporting to SDC and project steering board on CE/CB dimension



Annex

❖ ILDP – Sensitivity analysis of investment in strategic planning in the Municipality of Cazin

Sensitivity analysis of 4 scenarios % of increase of investments attributed to the existence of the strategic plan	Base scenario	Social + environmental scenario	Pessimistic scenario	Optimistic scenario
Public investments				
Economic development	5%	3%	1%	10%
Social development	5%	30%	1%	10%
Environmental protection	5%	50%	1%	10%
Other external investments				
Loans for infrastructure	0	0	0	10%
Private investments				
New business investments	50%	50%	30%	50%
SCO projects in line with strategy	100%	100%	30%	100%
Results of cost-benefit analyses				
NPV - net present value	226'724	494'454	5'861	1'762'785
IRR - internal return rate	149.3%	253.2%	15.9%	392.4%
CBR - cost-benefit ratio	2.91	5.16	1.05	15.84

Explanation: the percentages in the table indicate by how many % the corresponding investments have been higher thanks to the plan. In this case, 0 means that the investments would have been the same without the plan.