

Assessing the sustainability of public investments - From policy to practice

Ola Lædre, Associate Professor, NTNU

Gro Holst Volden, Concept Research Director
Norway



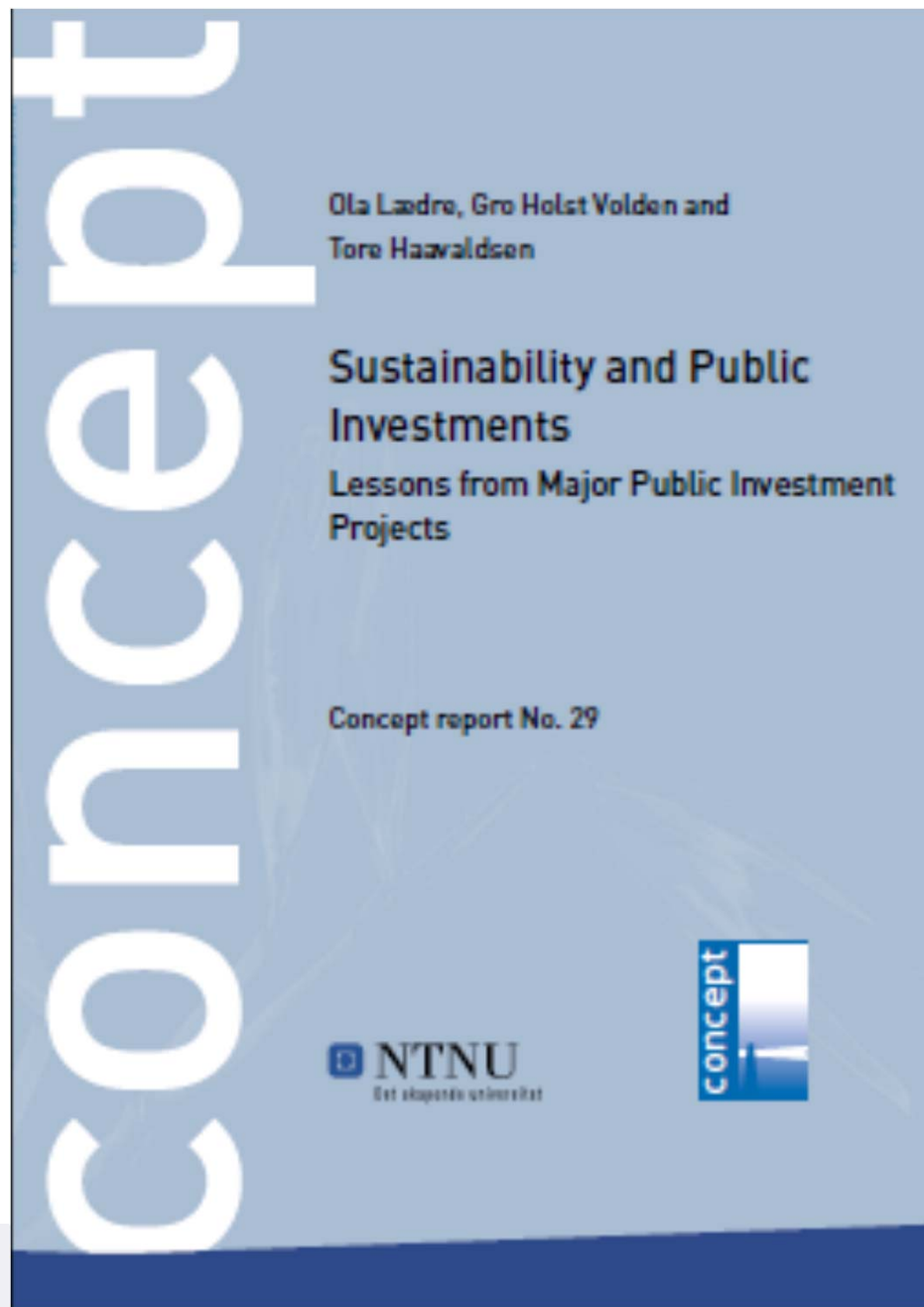
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Assessing the sustainability of public investments – From policy to practice

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From Policy to Practice...

1. The term sustainability is used in many ways
2. Lack of clarity in the governance framework concerning how to assess sustainability
3. This lack of clarity is reflected in the inadequate manner in which sustainability is actually assessed

...but still, some aspects of sustainability are assessed...

Everybody can agree to the importance of sustainability, but the differentiated use has "nearly rendered the term sustainability meaningless"

2010 Corporate Citizenship Report

21 free schools
for children of
growers

Lipton plantation
Kenya



Already more than 50% of the
comes from Rainforest Alliance
certified™ farms.

500,000
responsible

Lipton plantation
Kenya



Already more than 50% of the
comes from Rainforest Alliance
certified™ farms.

able

bottom line (3BL)
Profit



Definition of sustainability: OECD's five evaluation criteria

- Relevance
- Effectiveness
- Efficiency
- Impact
- Sustainability

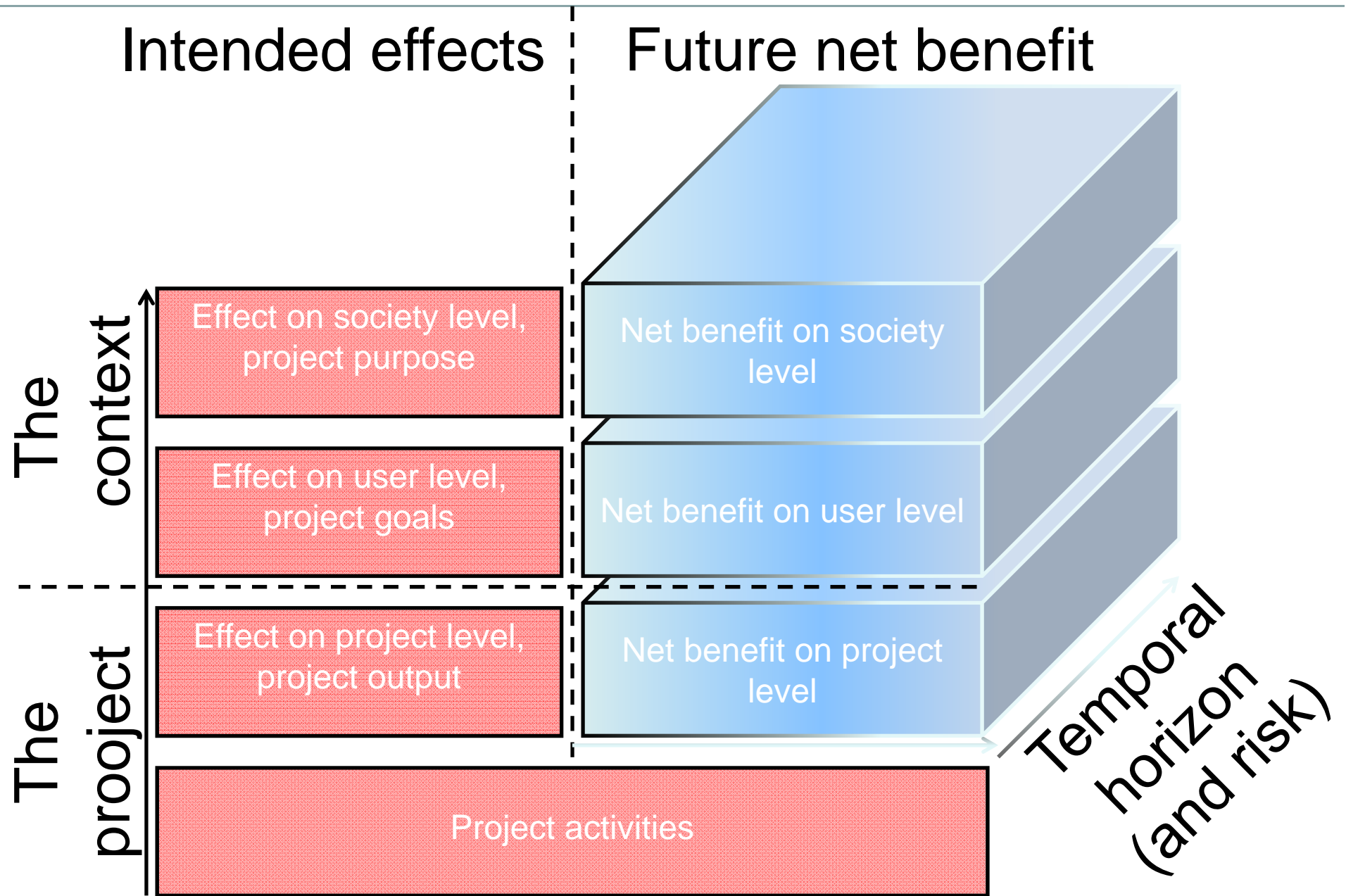
OECD's definition

“The continuation of benefits from a development intervention after major development assistance has been completed. The probability of continued **long-term** benefits. The resilience to **risk** of the **net benefits** flows over time.”

The three aspects of sustainability

According to the OECD definition of Sustainability, there are three different aspects that should be considered when assessing the sustainability of public investment projects:

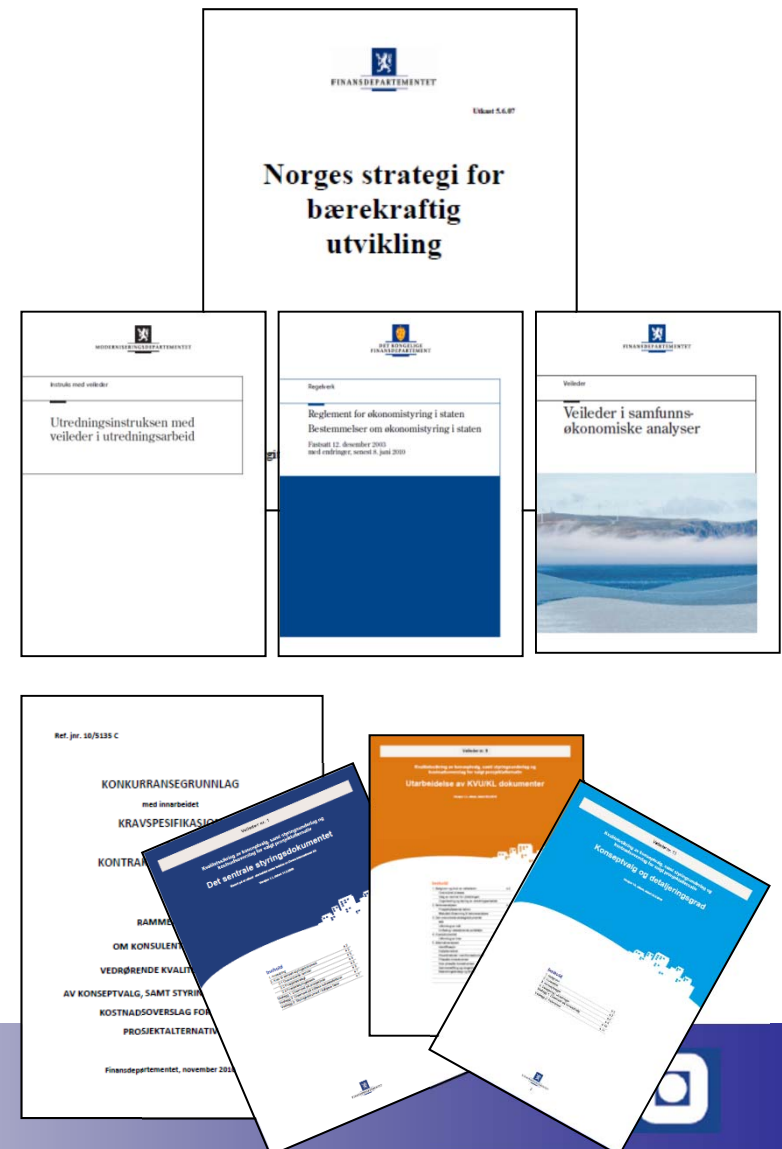
1. The temporal horizon (**long-term**)
2. The broadness in perspective (**net benefits**)
3. The risk (**risk**)



Breadth in perspective

What does the governance framework say about how to assess an investment's sustainability?

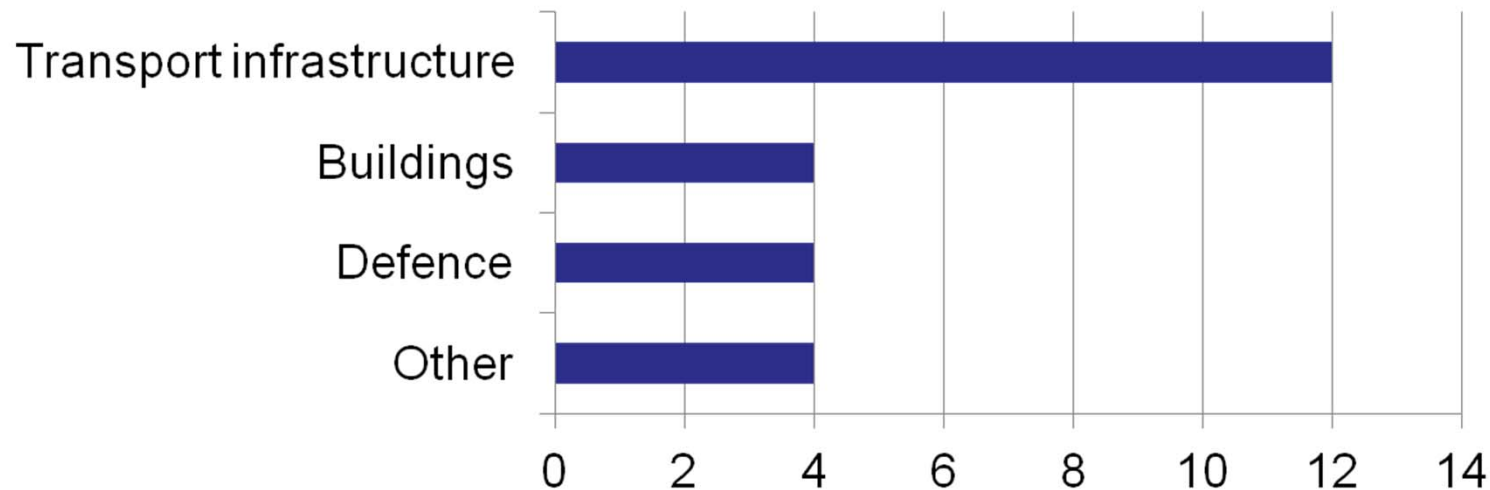
- General policy framework: Norway's strategy for sustainable development.
- Specific regulations and guides that apply to project appraisal.
 - Instructions for official studies and reports (Utredningsinstruksen)
 - Regulations on financial management in central government (Økonomiregelverket)
 - Guide for Cost-Benefit Analysis
 - QA scheme for major public investments



To what degree is sustainability really assessed in QA1? Key findings

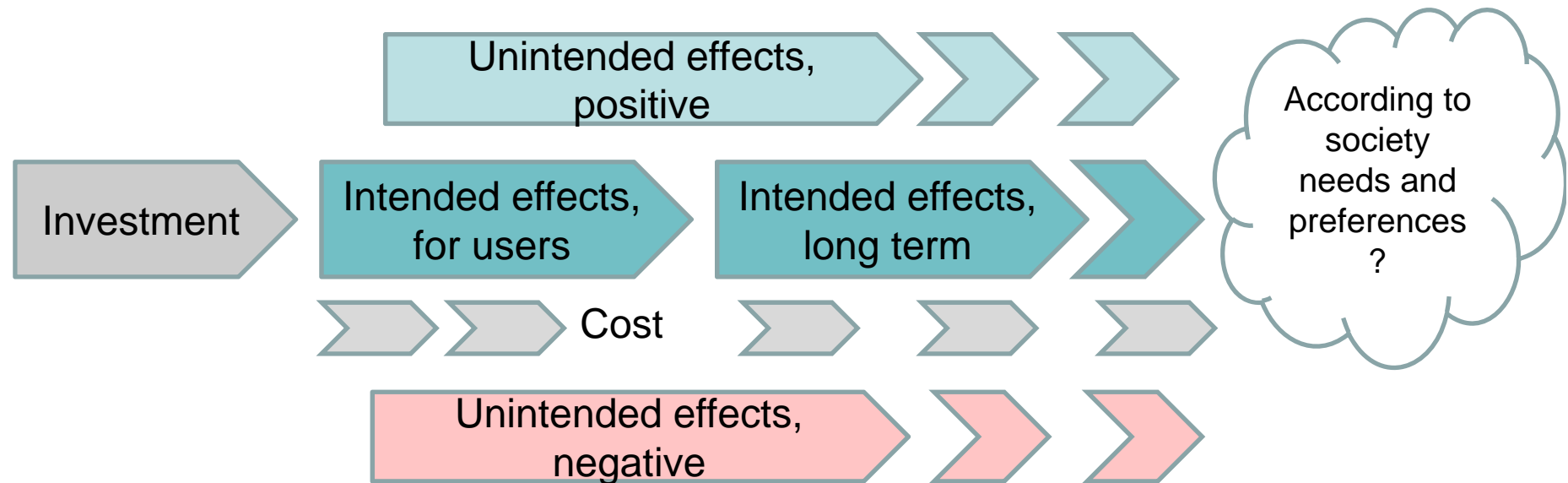
Data

- 24 projects under QA1 2005-2011
- Document analysis + interviews (Ministries, agencies and reviewers)



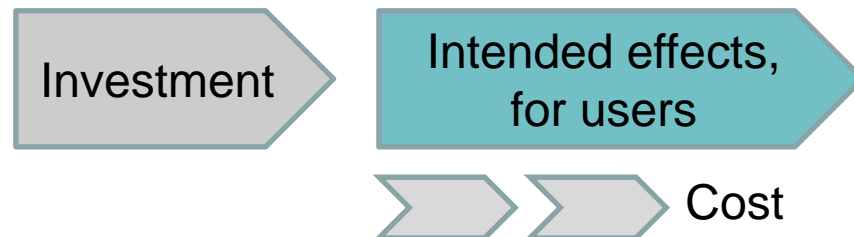
We looked at...

- ***Broadness in perspective***
- ***Temporal horizon***
- ***Risk assessment and flexibility***



Hypothesis...

- ***Broadness in perspective***
- ***Temporal horizon***
- ***Risk assessment and flexibility***



Broadness in perspective

- Focus mostly on needs (and effects) in own sector.
- Transport sector: Time savings dominate. Unclear how to balance against the ambition to reduce traffic (climate).
- Transport sector: Clearly defined which impacts are included and priced (CBA).
- Other sectors: Often only costs that are priced
- Unpriced impacts not systematically assessed in QA1 reports
- 2nd and 3rd order impacts normally not discussed
- Conflicts of interest / distributional effects not systematically assessed, often neglected

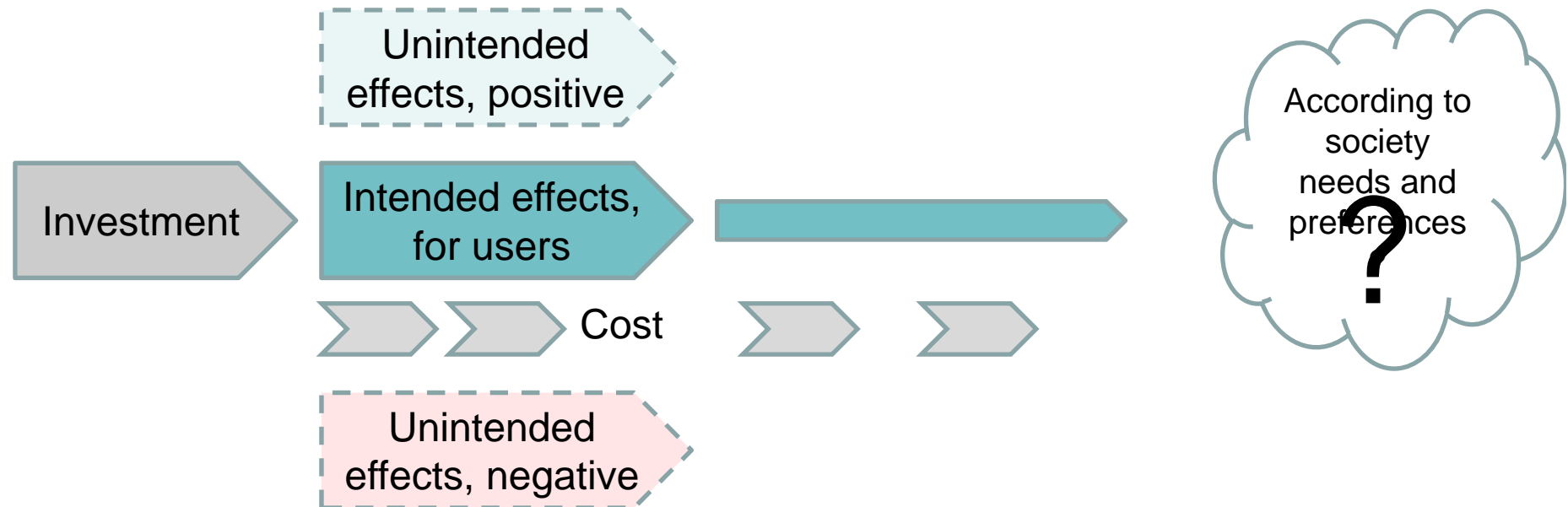
Temporal horizon

- The choice of temporal horizon often lacks discussion and justification. In two cases the reviewer extends temporal horizon compared to agency's analysis.
- Transport (CBA): Normally 25 years is used (according to agency's guidelines).
- Development of priced impacts over time included in some of the most recent studies.
- Other sectors:
 - Primary needs (effect) not quantified (culture sector, defence etc.) often limited to present day needs
 - Costs are assessed in LCC perspective (30-60 years)
- Development of unpriced impacts (short-long run) not discussed
- Discounting problem normally not mentioned

Risk assessment and flexibility

- Simple sensitivity analyses for some parameters in CBA, risk to unpriced impacts rarely discussed.
- Risks to the stability of underlying societal needs (i.e. continued relevance of the investment) usually not identified and discussed.
- Realism of maintaining sufficient financing during the operational phase and for necessary maintenance is hardly subject to questioning.
- Flexibility and real option values shortly discussed (the postponing alternative).

So, this is the picture...



What do reviewers, ministries and agencies say?

- Agree that sustainability is not properly assessed. But no consensus on how to do it better.
- **Balancing of needs, "society's preferences"**
 - Difficult for agency and reviewer to assess needs, ambition levels and to balance conflicting needs. *"Should be done by Ministry/Government."*
 - But what if needs are unstable? Some say *"Pretend they are stable, always ignore political risk"*, others *"Should be identified and analysed. Scenario analysis should be used more often."*
- **Impact assessment:**
 - Long-run impacts are difficult to handle, especially unpriced impacts and unintended (2nd or 3rd level impacts) impacts. *"Environmental and distributional effects are probably underestimated"*. *"Guessing feels uncomfortable, it is better to say nothing"*.
 - Some ask: *"Really a problem? Intended 1st level effects more important"*. Others state *"We need better tools and methods on how to treat unquantifiable information"*.

Conclusions

1. The term sustainability is used in many ways
2. Lack of clarity in the governance framework concerning how to assess sustainability
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