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**Salient topics in cost-
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Concept report no. 60



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English summary

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English summary

«Practice» in cost-benefit analysis should become «good practice»

The theory of cost benefit analysis was by and large finalized a few decades after the war (Dréze & Stern, 1987), but in the application of theory to real-world problems there are unresolved theoretical and practical issues of significant importance.

To address these issues the Ministry of Finance in Norway has over decades organized initiatives to turn cost-benefit analysis into a practical tool. Key documents are NOU 1983:25, NOU 1997:27 and NOU 1998:16, Finansdepartementet (2005), NOU 2009:16, NOU 2012:16 and DFØ (2018a; 2018b). A condensed version is found in Finansdepartementets (2014) circular R109. Circular R109 is accompanied by sectoral guidelines within transport, defense, energy and ICT.

Applied cost-benefit analysis in Norway develops, as well, through practice. The Norwegian scheme for quality assurance of major public investments, also referred to as the State Project Model, calls for two cost-benefit analyses of each public project (Finansdepartementet, 2019). These are referred to as the KVV and the KS1 report. The scheme has increased the attention paid to assumptions, parameter values and assessments, and to the quality of the analyses. The State Project Model is accompanied by guidelines, e.g., on how to handle the reference scenario. Furthermore, the Concept research program and other research groups, have published reports with a survey character, on topics such as toll fees, environmental impacts, non-monetized impacts and the social cost of carbon.

Given a large number of recent analyses and guidance documents there is reason to ask if applied cost-benefit analysis in Norway develops in a coherent way, or if practice and guidance is incoherent. Our report attempts to answer that question. Where we see deficiencies and dissonance, we suggest changes and improvements in the guidance material. Our aim is to contribute to making the analyses more coherent, and better.

We have analysed KS1-reports, guidelines and relevant thematic reports

Before we address recommendations and suggestions it might be useful to know the gist of our approach. We started out with 13 thematic areas where, based on our experience in cost-benefit analysis, we had reason to believe that practice could be incoherent.

In the next step we read all public KS1-reports published between 2014 and 2018 and available at the Concept webpage, 38 reports in all, and assembled information on how each report treated each of the 13 thematic areas. We gained information about practice in the KVV reports from the KS1 reports, and we read some of the KVV reports ourselves.

We limited the search to reports published since 2014 because circular R-109 was issued in 2014 and clarified good practice in several areas. Earlier reports do not necessarily reflect current practice and problems currently remaining.

To the data collection through KS1-reports we added a review of guidelines and thematically relevant research. Besides, we interviewed recognized experts about their impressions of practice.

In the final step we pulled together the material and structured the work under the three headings “what the guidelines say”, “how is practice”, and “our assessment”. Our main recommendations – in the sense that they may influence the outcome of cost-benefit analysis – are related to the reference scenario, project life length, the social cost of carbon, wages and distributional effects. In the final chapter we have collected recommendations related to all themes and topics.

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Forskningsprogrammet Concept skal utvikle kunnskap som sikrer bedre ressursutnyttning og effekt av store, statlige investeringer. Programmet driver følgeforskning knyttet til de største statlige investeringsprosjektene over en rekke år. En skal trekke erfaringer fra disse som kan bedre utformingen og kvalitetssikringen av nye investeringsprosjekter før de settes i gang.

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