



MA Circular 01/2015

5<sup>th</sup> August 2015

To: All applicants of ERDF and Cohesion Fund Projects

CC: Line Ministries

### **Updated Guide to Cost-Benefit Analysis of Investment Projects**

As indicated in the Detailed Guidance Notes issued in conjunction with the 1<sup>st</sup> Open Call for Project Proposals for the 2014-2020 Programme, a Cost-Benefit Analysis (CBA) is required for any proposed projects with a budget that exceeds €5million (excl. VAT). The objectives of such CBA should be to provide an objective and rigorous tool to assess the quality of the proposed project, to provide an indication of whether such project requires EU financing and whether it is sustainable in the short and long term, and to measure the quantifiable impact of the activity on its target area by quantifying in monetary terms the Direct Effects emanating from the proposed action.

In this regard, the MA would like to bring to your attention that an update to the 2008 version of the *Guide to Cost-Benefit Analysis of Investment Projects* has been launched by the European Commission on 2<sup>nd</sup> July 2015 and is available on this link: [http://eufunds.gov.mt/en/Operational%20Programmes/Useful%20Links%20and%20Downloads/Documents/2014-2020/cba\\_guide.pdf](http://eufunds.gov.mt/en/Operational%20Programmes/Useful%20Links%20and%20Downloads/Documents/2014-2020/cba_guide.pdf). The main changes, apart from general updates, found in this version of the Guide, are the following:

- a. A reinforced operational approach with a stronger focus on the investment priorities of the cohesion policy;
- b. Greater access to good practices, common mistakes and case studies;
- c. The inclusion of Broadband and R&I as sectors of analysis;
- d. A stricter line with regard to highly profitable projects;
- e. Changes in the Reference Periods.

More specifically, from a Financial perspective the changes to note can be summarized as follows:

- a. Reduction of Financial Discount Rate (FDR) from 5% to 4%
- b. More emphasis on ensuring financial viability (sustainability) in the Project Implementation and Operation;
- c. Calculation of FNPV (KP) for private equity to avoid overcompensation.

Applicants are reminded that the main principles of the CBA methodology are enshrined in the Commission Implementing Regulation no 2015/207 and in Delegated Regulation 480/2014. Hence applicants are strongly encouraged to familiarize themselves with both Regulations, as well as the guidelines issued thereto while preparing their project proposals. Any CBAs or Feasibility Studies will be assessed on the basis of such guidelines and will greatly impact the evaluation carried out by the Project Selection Committee, both from a quantitative and qualitative perspective.

In case of difficulties, please do not hesitate to contact the Managing Authority as needed.

Best Regards,

A handwritten signature in blue ink, appearing to read 'Jonathan Vassallo', with a long horizontal line extending to the right.

Jonathan Vassallo  
Head, Managing Authority