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Project Appraisal in Development Assistance

by Hans H. Lembke, Berlin*

The debate on development theory and changes in planning theory have led, in the last decade, to extensive changes in project evaluation methodology. Hans Lembke outlines these changes and discusses their relevance for the decision-making process.

The debate on the most suitable methods of evaluating government investment projects in developing countries has gone through numerous phases of differing intensity since its launching in the late 1940s. A further upswing has been in evidence since the mid-1970s; the main directions sought by the more recent methodological proposals are an expansion of the evaluation approach by incorporating "new" objectives and a refinement of the evaluation techniques. The impetus for these proposals derived primarily from the debate on development theory, or more precisely from the discussion on the most suitable approaches to development promotion ("from growth to basic needs"). They became known partly on account of the relatively broad discussion on expanding cost-benefit analysis to incorporate equity and employment aspects.

It was in a rather secondary arena that a parallel discussion developed in the wake of changes in planning theory ("from the principle of instrumental rationality to the paradigm of self-guided learning systems"). The subject of this debate is for the main part the organization of the project planning and decision-making process. By virtue of the call for a more complex planning approach which this debate provoked, it likewise had implications for evaluation methodology: viewed against the background of a revised functional definition for project evaluation, the question as to methodology posed itself anew.

There is a twofold correlation between evaluation methodology on the one hand and the predominant explanatory theories and strategic recommendations on the other. Firstly, the objectives governing evaluation are largely derived from strategic recommendations and, by extension, from the explanatory theories which underly them. A change in the fundamentals of development theory will therefore always – perhaps not directly and not immediately – be reflected in an adaptation of evaluation concepts.

Changes in the Development Theory Context

The second correlation is to be found in the fact that the scope of any evaluation is dependent on the explanatory value of the underlying development theory and the accuracy of the strategic recommendations. This becomes apparent when evaluation is interpreted as an examination of hypotheses on the degree to which projects can be instrumental in achieving given objectives. The hypotheses concerning how, and the extent to which, the project can contribute towards the development goals being pursued are established during the project identification and project preparation phase. The purpose of project evaluation, then, is to check the validity of these assumptions. To what level these goals-achievement effects have to be analysed in project evaluation is evidently dependent on the degree to which the assumptions as to impact can be considered to be valid at the various levels.¹ This is in turn determined by the explanatory power of the theories from which the hypotheses were deduced.

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¹ Adopting, for example, the terminology of the "logical framework", a distinction can be made between the following impact and goal levels: project inputs, project outputs, project purpose, sector or programme goal.

If one calls to mind the debate which took place on development policy during the 1950s and 1960s, it is striking to see that despite considerable divergences in terms of strategy recommendations – “balanced” versus “unbalanced” growth, anticipatory or merely reactive development of infrastructure – a characteristic feature of this debate was its very profound confidence in the concept of a “catching up” type of development. This concept was increasingly called into question by the shift in development thinking which began towards the end of the 1960s. The traditional theoretical explanations and strategy recommendations were revised against the background of structural problems in the world economy and socio-structural developments in the countries of the Third World.

For project evaluation methodology, this strategic revision in development policy implied that an analysis of economic effectiveness was no longer adequate, even in connection with projects which had (formerly) been regarded as “purely economic”, as the decisive instrument for project selection. Empirical substantiation, and in particular the identification of a parallel relation between a relatively high GNP growth rate and stagnation or even a deterioration in the living conditions of the vast majority of the population, shook the confidence placed in the explanatory value of the prevailing development theories and, more particularly, the clear priority attached to economic criteria in the selection and design of development promotion measures. From then on, project evaluation had to relate to a considerably broader range of objectives and could rely much less than hitherto on unchallenged assumptions of means-end relationships.

Changes in the Planning Theory Context

Just as for “development thinking”, for planning theory too the 1960s brought the onset of a fundamental change: parallel to the development described above “from growth to basic needs”,² there is evidence of a transition “from the principle of instrumental rationality to the paradigm of self-guided learning processes”.³ The premises on which the traditional planning approach is based are instrumental rationality, comprehensive planning and planning from above. Instrumental rationality here refers to the concatenation of goals, means and results in the form of a “mechanistic

allocation of means for arriving at fixed, anticipated futures”,⁴ comprehensive planning refers to the comprehensive screening of alternatives, in other words to the attempt to arrive at not only a local optimum but in principle at an absolute optimum, and planning from above, finally, refers to the centralistic approach and the method of “veterinary treatment” of those affected by the planning, or, in other words, the concept of non-articulate planning subjects who are unable to participate and therefore necessarily assume a passive role as planning objects.

Various authors⁵ pointed out as early as the late 1950s and early 1960s the lack of congruence between the economic-rational decision-making model on the one hand and the actual decision-making procedure within organizations (in particular those in the private sector) on the other: what actually is sought is generally not the optimal solution but a satisfactory solution (after very scant consideration of alternatives); decision-makers are said to decide on a “merely” subjective basis, not on the strength of objective rationality; the formulation of goals is not the logical deduction of means-ends systems followed by a synthesis to determine the hierarchy but a negotiation and learning process which does not necessarily lead to a cohesive goal system; in any case, it is argued, the formulation of objectives in actual planning processes is often not an indispensable precondition for instrument selection, this frequently being added at a subsequent point in time along the lines of an ex-post rationalization measure.

These theses signified a clear departure not only from the underlying concept of instrumental rationality but also from the call for comprehensive planning. Applied to development planning, this claim of comprehensiveness was increasingly called into question as the difficulties involved in the empirical deduction of “plannable”, i.e. hierarchically ordered, valid goal structures of manageable dimensions became just as apparent as the tenuousness of hitherto unquestioned assumptions of stringent means-end relationships (empirical evidence of non-achievement of goals despite the proper deployment of resources, surprising variety and implications of side-effects).

Likewise refuted was the third premise underlying the traditional concept, planning from above. Emphasis was

² Cf. the article thus entitled by P. Streeten, in: *Finance & Development*, Vol. 16, 1979, No. 3, pp. 28-31.

³ The subtitle of a review article by S. A. Musto: *Wandlungstendenzen in der Gesellschaftsplanung*, in: *Soziale Welt*, Vol. 26, 1975, No. 2, pp. 293-309.

⁴ *Ibid.*, p. 293.

⁵ Cf. R. M. Cyert, H. A. Simon, D. B. Trow: *Observations of Business Decisions*, in: *The Journal of Business*, Vol. 29, 1956, No. 4, pp. 237-243; R. M. Cyert, J. M. March: *A Behavioral Theory of the Firm*, Englewood Cliffs 1963; J. C. March, H. A. Simon: *Organizations*, New York et al. 1966 (7th ed.); C. E. Lindblom: *The Science of “Muddling Through”*, in: *Public Administration Review*, Vol. 19, 1959, No. 2, pp. 79-88.

placed at a relatively early stage on the need, from the instrumental viewpoint, for citizen participation in planning processes, in particular in those concerning development planning: participation was regarded as an instrument to improve the technical aspect of planning, as a complement to the governmental instrumentarium in the light of the low performance levels of the state and its administration. Participation, thus understood, was ultimately a means of providing cover for the concept of planning from above in spite of its weakness.

In contrast to this basically conservative concept, a much more extensive challenge was presented by the reasoning contesting the centralism in the concepts of social cohesion and social control as such⁶ and by the criticism of the asymmetry in the relation between the subject and object of planning within the planning concepts.⁷

Implications for Project Evaluation Methodology

The criteria which can be drawn from the changes on the theoretical plane described in the foregoing and which should serve as the ultimate measure of the progress made on the methodological and practical level, can be summarized as follows:

- ☐ Project evaluation must relate to a goal function which – to the extent that this is determinable – is on principle multidimensional and usually varies over time, and which is the expression of (usually diverging) group interests.
- ☐ Project impact must be recordable on a multidisciplinary, group-specific, and multilevel basis (as opposed to merely the consideration of economic input-output).
- ☐ As in the case of the goals, the relationship between project activities, external factors and project impact are, at least partly, unknown in advance. Evaluation, therefore, must be integrated into an adaptive, learning type of planning process, with identification of impact not being restricted to anticipated, goal-related effects (systems approach versus goals approach in evaluation).
- ☐ The call for open planning – at least in the preliminary phase – and for participation in planning presuppose a planning process in which the need for decision (selection and implementation decisions) is no longer concentrated at one point as in the traditional project

procedure but occurs at several points within the project cycle. Evaluation – understood here as preparation for decision-making – is therefore likewise called upon to be a multiple activity with a number of functions. In general terms, what should be sought is a shift in emphasis from the one-off ex-ante evaluation towards these additional evaluation steps occurring throughout the project preparation and, more importantly, also during the project implementation phase.

Cost-benefit analysis in its expanded form to include social goals⁸ meets these claims only to a very limited degree. This method appears to be at best only partly suitable for identifying and evaluating income distribution effects with respect to specific target groups. If, in addition, one considers the call for integrating into the project evaluation effects which are not measurable in monetary terms – for example, investigating the question as to whether or not the project output satisfies urgent consumer needs among the target population or increases their productivity – this is demanding too much of the model even in its expanded form.

The closest alternative to expanding cost-benefit analysis by introducing socio-economic criteria as discussed above is to make a distinction between the analysis of economic efficiency on the one hand and the evaluation of socio-economic effects on the other. Conventional cost-benefit analysis is used here as the instrument for measuring efficiency. The basis for the analysis of socio-economic effects is a set of criteria (checklist) which is intended to serve as a guide for the compilation of socio-economic data.

By comparison, the more logical alternative to the expanded cost-benefit analysis is the checklist of criteria in its general form, i. e. an open approach with partial indicators in which the benefit-cost rate as an indicator of efficiency represents one evaluation criterion among many, and furthermore one – in principle – of equal rank. The indicators may be related exclusively to explicit project goals; within such a “goal approach to evaluation”, only project effects which are relevant to the goal pursued are documented and evaluated. This restriction is absent in the “systems approach to evaluation”, where a distinction can be made between two levels of completeness. At the first level, the evaluation relates not only to the effects which are relevant to the goal but also to the so-called non-intended side-effects. Accordingly, the spectrum of project effects to be examined is not limited from the

⁶ Cf. J. Friedmann and C. Weaver: *Territory and Function. The Evolution of Regional Planning*, London 1979.

⁷ Cf. S. A. Musto: *Wandlungstendenzen . . .*, op. cit., p. 299.

⁸ Two different versions of this approach are given by C. Squire and H. G. van der Tak: *Economic Appraisal of Projects*, Baltimore, London 1975; and UNIDO: *Guide to Practical Project Appraisal. Social Cost-Benefit Analysis in Developing Countries*, New York 1978.

outset to those measurable in terms of relevance to the goal being pursued.

In the systems approach at the second level of expansion, the view is not restricted to the "project → environment" direction (impact analysis and impact evaluation) but also relates to the reverse direction. This in turn makes it possible to undertake a systematic identification of the environmental factors, i. e. those factors which determine the scope within which the project can operate and also co-determine its results. Analysis on the basis of such a list and the concept of symmetrical project-environment relations, therefore, serves not only the purpose of project evaluation (i. e. evaluation of its impact) but also the determination of project feasibility; the enquiry is directed not only towards the project effects but also towards the functional preconditions during the project implementation and operation phases.

This is an investigation approach which has gained increasing significance at the practical level of development assistance as the simple concept of projects defined in largely technical terms which was typical of the early days of development aid had to cede its place to the notion of a complex, socio-technical system incorporating unforeseeable side-effects and social conflicts during implementation ("acceptance problems"). As the sheer complexity of the question of feasibility became apparent, this aspect acquired increasing importance at the expense of that of optimal project selection, which had clearly predominated in earlier project planning literature. This new viewpoint is expressed in various more recent works on the evaluation of development projects: feasibility testing (in

the expanded form referred to above) and impact analysis and evaluation represent two equal-ranking tasks in preparing for decision-making which are interlinked and therefore need to be tackled in conjunction. Accordingly, the screening lists proposed in these works incorporate criteria concerning both feasibility and impact.⁹ In this twice-expanded form the open approach with partial indicators largely meets the requirement profile charted out above, provided it is backed up by the organizational changes which are postulated by planning theory.

Development projects in particular are likely to be implemented under conditions (of uncertainty) which are such as to call into question the validity of the rational decision model. The more turbulent the environment the less the decision-maker will adhere to the model (i.e. decide with instrumental rationality) and the more he will have recourse to heuristic problem-solving approaches. This insight has led to two conclusions of different degrees of radicality drawn in the literature on project evaluation. The first essentially calls for the reorganization of the planning and decision-making process prior to the commencement of project implementation in favour of adaptive planning with an iterative type of problem structuring and problem solution. The linear planning procedure model (project formulation → project evaluation → project decision) should be replaced, it is argued, by a cyclical model: (re)formulation of the problem → formulation of goals and criteria → development of alternatives and

⁹ Cf., for example, H. Weiland et al.: Soziale Auswirkungen von Maßnahmen der Finanziellen und Technischen Hilfe. Beiträge zu ihrer systematischen Erfassung, Freiburg 1978 (mimeo); S. Cairncross et al.: Evaluation for Village Water Supply Planning, Chichester 1980.

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evaluation → revision of the alternatives and the goals. Only after running through this planning loop several times does one arrive at a clearly structured problem and a set of realizable solution alternatives.¹⁰

The second approach moves even further away from the model of decision-making governed by instrumental rationality: under the terms of this concept, projects should in principle be designed as experiments, their purpose residing essentially in learning by doing.¹¹ The reasoning underlying this claim is that existing knowledge on the guidability of development processes is often not sufficient for introducing a blueprint approach and that projects themselves should therefore be conceptualized as instruments to reduce this deficit.

Relevance of the Discussion to German Practical Project Work

Practical project selection and project evaluation is not the direct, technocratic application of the concepts developed at the methodological level but a largely politically determined process which is merely formalized in individual phases by the application of these concepts. This process is primarily influenced by objectives and organizational factors which have no place in the simplified decision-making model on which evaluation methodologies are for the main part based. Anyone wishing to chart out the contextual conditions governing project selection in actual practice must look to the array of objectives pursued at allocation level and must examine the determinants which result from the specific organization of the decision-making process.

From the very beginning of German capital assistance two decision-making levels within the administration were established: the political level (ministry) and the executive level (executing institution). The administrative decision-making process concerning the granting of capital aid is divided between these two levels (not always taking place without conflict). Generally, thus, a preliminary decision in principle on the implementation of a project is taken at the political level before the "real" appraisal is carried out at the executive level. This second phase is normally no longer concerned with the decision regarding acceptance or rejection of the project request but instead with an investigation into the feasibility of a project which has already been accepted in principle from the political viewpoint and, at most, additionally with an appraisal of various technical options.

Given such an organizational structure, the project evaluation methodology found in the relevant literature, with its trend towards even greater refinement, has so

far been reflected almost exclusively in project appraisal at the execution level. With respect to this level it can be affirmed that the debate on methodology has indeed been heard and taken up. This is shown by the continual expansion of the evaluation horizon in the appraisal concept – a reflex action vis-à-vis the debate on multidimensional goal orientation, non-intended side-effects and social acceptance.

Less apparent is resonance from the discussion on planning theory and a realization of the call for adaptive planning. No doubt, in real-life terms the planning and decision-making process is much more complex than the simplified model of decision according to instrumental rationality. A German capital assistance project in fact does not adopt any linear planning and decision path which is clearly staked out by guidelines and methodologies; instead, its path through the assessing authorities is one which also bears features of an adaptive planning process. This process, however, is mainly a side-effect of the traditional division of labour established within the administration and much less the result of any deliberate application to the procedural organization of recent insights from planning theory. If one regards the planning and decision-making process from the viewpoint of methodological endeavour, one finds the same emphasis placed on project appraisal which is apparent in the more conventional literature on project evaluation. A conspicuous feature is the astonishing discrepancy between decision-relevance and the methodological development input. The early evaluation stages with their relatively strong emphasis on the project decision (yes/no, either/or) encountered only secondary interest from the methodological viewpoint. Project appraisal, on the other hand, the starting point and limited mandate of which can be described in terms of "yes, but . . .", formed the focal point of interest.

Any attempt, however, to reorganize the planning and implementation process by following the approaches sketched above (planning as a search process, implementation as a learning process) will encounter

¹⁰ Cf. D. Weiss: *Infrastrukturplanung. Ziele, Kriterien und Bewertung von Alternativen*, Berlin 1971; R. Büchi: *Erfolgsevaluierung von Entwicklungsprojekten*, Bern 1976, pp. 112 ff.; N. Imboden: *A Management Approach to Project Appraisal and Evaluation – with Special Reference to Non-Directly Productive Projects*, OECD, Paris 1978, p. 59.

¹¹ Cf. D. A. Rondinelli: *Designing International Development Projects for Implementation*, in: G. Honadle and R. Klaus (eds.): *International Development Administration. Implementation Analysis for Development Projects*, New York 1979, pp. 48 ff.; C. F. Sweet and P. F. Weisel: *Process versus Blueprint Models for Designing Development Projects*, in: G. Honadle and R. Klaus (eds.): *International . . .*, op. cit., pp. 127-145; R. Skeates and G. Whittam: *The Role of Performance Evaluation in the Development Process*, in: *Asian Development Review*, Vol. 1, No. 2, 1983, pp. 58-65.

rather binding constraints in practice. The allocation of funds for development projects which are deliberately kept open-ended and for which the fund allocation can only be forecast on a very rough basis is generally difficult to reconcile with the interests and constraints of development financing institutions; that this is so has been adequately proven by the experience gained with non-project development financing ("programme financing")¹² in the Federal Republic of Germany as well as in other donor countries. The interest which the body approving the appropriation (usually the parliament) has in extensive control over the deployment of the funds is amply clear here, just as is the interest which the donor institutions have in keeping the project management work load – and implementation conflicts with the executing agency in the recipient country – to a minimum from the outset by ensuring that the project is set on a fixed track at the earliest possible stage, at the latest when the loan agreement is concluded.

Possible Procedural Improvements

For these and other reasons, thus, the idea that the donors of development assistance could adopt a policy of planning a larger proportion or even the majority of projects on a more open basis, i.e. conceptualizing them systematically as learning steps, within the foreseeable future seems, regrettably, to be far removed from reality. Much more readily reconcilable with the interests and constraints referred to above is the proposal to the effect that project selection and project planning should be organized as an iterative search process. The extent of this proposal should again be bounded pragmatically; it can be staked out by reference to the notions of "general systematization" and "selective penetration".

One tool for integrating more tightly and more systematically the declared premises of development policy into the early phases of the decision-making process ("general systematization") might be the "logical framework"; alternatively, a simple list of criteria can suffice. Of decisive importance is merely that the tool is designed with its specific application in mind if the danger of mechanically "ticking off" the appraisal points and an inadmissibly oversimplified structuring of complex interrelationships is to be effectively counteracted from the outset. Only by ensuring that the design of the methodology proceeds from a realistic assumption concerning the availability and processability of information can this danger be contained a priori. The only person, however, who has the experience as to the information base normally

available at this early stage and the knowledge as to the data which can be processed given the formal and informal procedures as they currently exist, is the practitioner working in the operative fields of the administration; no external expert on methodology can have such knowledge. It is therefore not a sophisticated methodology requiring external expertise which is called for but methodologically rather simple action guidelines which, however, must be based on an in-depth knowledge of their conditions of application.

External methodological expertise might at most be required if the existing procedure is changed to such an extent that "selective penetration" could be applied in the early stages of project assessment. De facto, each bilateral donor has projects which internal, informal perception would suggest are intended to pursue primarily foreign and economic policy donor objectives, with development policy concepts serving as the backup. This raises the question whether the logical conclusions should be drawn herefrom with respect to the intensity of project evaluation. Even assuming no expansion of administrative capacity, a more detailed evaluation would then be possible for all project proposals falling within the development side of the project spectrum. On the other hand, the danger of downgrading the intensity of evaluation for the remaining projects should not be overlooked: to counter their potentially harmful side-effects these projects should at least be subjected to a development-oriented early-warning check.

Compared with the great conceptual demands emanating from the theoretical and methodological discussion sketched above, this is a very modest proposal. It has been deliberately held modest, because it proceeds from recognition of the (now particularly apparent) strain on development assistance policy imposed not only by "extra-departmental" demands but largely also by the aid administration's own accumulated conceptual ambitions (by no means only in the Federal Republic), a strain which this field of politics should free itself of in the interest of preserving its scope for action and its credibility. By reviewing their sometimes over-ambitious declared objectives and by gradually introducing a more flexible planning and implementation process with greater emphasis on the learning aspect, aid administrations would be reacting constructively to their insight into the limited predictability of development programmes' impact and could counter more effectively those critics who, despite this uncertainty, judge the administration's performance in accordance with a simplistic "actual-compared-with-targets" approach.

¹² Cf. P. J. B e n d i x and H. H. L e m b k e : Nicht-projektgebundene Finanzierung. Internationaler Diskussionsstand und Erfahrungen anderer Geber, German Development Institute, Berlin 1983.