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Planning and Appraising Development Projects

CHAPTER SUMMARY

This chapter introduced the definition of a development project and some of the debates about the relative importance of projects in development planning. It was argued that, while such projects needed to be planned in a wider sector context, it remains important that project investments are identified and planned in a systematic way and appraised to ensure that they make a positive contribution. Some of the useful tools for planning and designing projects are included in the logical framework approach, which has been used by many development agencies. Projects in different sectors can be appraised using the techniques of CBA and CEA. The first stage in CBA is to set out the costs and benefits at market prices to determine potential overall viability. This can then be further refined into a financial analysis to determine the financial profitability of commercial projects and to ensure that the financial plan of any project will work. To determine whether a project is a good thing from the national point of view, it is necessary to consider potential external costs and benefits, including those associated with environmental impact. It is also necessary to undertake an economic analysis using shadow prices if market prices are not perceived to reflect economic costs or values. In the process it is possible to undertake a distribution analysis to determine whether the benefits go to target groups, particularly those that are relatively poor. For some sectors, particularly in the social sectors where benefits may be difficult to value, it may not be possible to do CBA. In such cases it may be possible to undertake CEA to ensure that expenditure is relevant and efficient. Finally, it is important to account for the margin of error in the estimates made to determine whether the risk of failure is excessively high.

VIDEO RESOURCES

Monitoring and Evaluation Planning for Projects/Programs

<https://www.youtube.com/watch?v=ejVmqsxF33Q>

Time 19:32

In this webinar, Scott Chaplowe provides concise guidance to develop and implement a Monitoring and Evaluation (M&E) system for project planning, implementation, and evaluation. The webinar covers the key components of an M&E system that trace a logical train of thought from the project's theory of change to the specific objectives needed for these changes, methods for measuring change, and protocols for collecting and analyzing data and information. This webinar is part of the American Evaluation Association's weekly Coffee Break Webinars program. Normally available for AEA members only, this special four-part series co-sponsored by Catholic Relief Services, American Red Cross/Red Crescent, United States Agency for International Development, and AEA's International and Cross Cultural Topical Interest Group is available to the public.

Ten Steps to a Results-Based Monitoring and Evaluation System

<https://www.youtube.com/watch?v=EaHXqNTDwBs>

Time 22:30

A video on National Evaluation Capacity Development for Country-led Monitoring and Evaluation Systems. This unit is entitled Ten Steps to a Results-Based Monitoring and Evaluation System. This unit is taught by Ray Rist and Jody Zall Kusek.

Outcomes-based monitoring and evaluation

<https://www.youtube.com/watch?v=MUSzePBTpAY>

Time 8:45

Interview with Dr. Chuks Eresia-Eke on *Good Morning Africa* about Results-based Monitoring and Evaluation

Types of Plans

<https://www.youtube.com/watch?v=QzmyvAdweHk>

Time 12:58

This animation introduces the learner to various types of plans, their objectives, strategy, policy, procedure, methodology, rules of planning and budgeting of the same.

World History Final Project: Environmental Awareness

https://www.youtube.com/watch?v=WUTKZhTF_Ik

Time 7:10

World History Final Project—changing the importance of the environment globally.

How not to be ignorant about the world, Hans and Ola Rosling

<https://www.youtube.com/watch?v=Sm5xF-UYgdg>

Time 19:09

How much do you know about the world? Hans Rosling, with his famous charts of global population, health and income data (and an extra-extra-long pointer), demonstrates that you have a high statistical chance of being quite wrong about what you think you know. Play along with his audience quiz—then, from Hans' son Ola, learn four ways to quickly get less ignorant.

REVIEW QUESTIONS

1. What is a development project, and how is it related to the investment?
2. Briefly describe the project approach and its weaknesses.
3. Discuss in brief the difference between the project process and the project spiral.
4. Briefly explain the most important stage in undertaking of the objective oriented project planning.
5. Discuss the meaning and importance of the object analysis.
6. What do we need to do to ensure that a project is a good thing?
7. Explain in brief the annual statement of costs and benefits.

ANSWER KEY: REVIEW QUESTIONS

1. The word “project” is used in many different ways, but in the context of development planning a project can be thought of as an investment of scarce resources in the expectation of future benefit. If resources are scarce they have to be used effectively, so development projects have to be planned with a clear objective in mind. A project has to have geographical and/or organizational boundaries so that we know what is included in the project and what isn’t. A project is also time bound in that it has both a start and an end. Often, the end of a project as a project does not mean that the activities finish. It just means that they become part of the routine operation of the organization responsible for the project. The association of projects with investment is important because we expect the early stages of the project to incur net costs to society but that these costs will eventually lead to net benefits. The methods used for appraising projects are designed specifically to take account of the comparison of early net costs with later net benefits. These methods include cost-benefit analysis, where project benefits can be measured fairly easily, and cost-effectiveness analysis, where valuation of benefits is more difficult, particularly in the health and education sectors. (p. 521)
2. The “project approach” is perceived to be narrow in focus and failing in terms of overall coherence. The emphasis placed by donors on the planning and appraisal of projects was therefore reduced. However, the idea that a systematic approach to planning could involve both coherent sector strategies and well-planned projects seemed to be overlooked. (p. 523)
3. The development of a project is the “Project Cycle,” originally developed for the World Bank and reflected the processes of that organization. Essentially, a project goes through the processes of identification, preparation, appraisal, implementation, and evaluation. The cycle is completed when the evaluation process leads to a new project idea and the cycle starts over again. There have been many criticisms of the model for its simplicity and rigidity and the fact that it does not recognize the possibility of abandonment or termination. A number of alternative and more detailed models have been put forward. Picciotto and Weaving developed a new version for the World Bank that emphasized participation, flexibility, and accounting for the interests of stakeholders. An alternative approach that relates project development to the various processes and stages but allows for modification of design as well as termination is the “Project Spiral.” In this model the process of project development is conceived as a series of concentric circles that may eventually lead to project implementation but may also involve changes in project design or simply abandoning the idea. (p. 523)
4. Assuming that a problem (or an opportunity) has been identified, the first stage in OOPP is to identify the relevant stakeholders, that is, the people who are likely to be involved in a potential project or those who might be affected either positively or negatively. The purposes of the exercise are: (1) to ensure that resources are targeted to meet the needs of priority groups; (2) to make appropriate arrangements for co-ordination and participation; (3) to understand and address potential areas of conflict in project design (p. 524).
5. In this analysis the negative situations indicated in the problem tree are replaced by positive outcomes that are supposed to be “realistic” and “achievable.” The idea is then to determine the measures required to achieve those outcomes. The problem tree is replaced by an objectives tree in which the negative statements are replaced by solutions. In a pure project case this would simply consist of the activities needed in the project. However, in many cases other actions (e.g., policy decisions) may be necessary for the project activities to work. These may become conditions that have to be satisfied before the project planning process can start; otherwise, assumptions that are made, if wrong, might affect project outcomes. The process of objectives analysis might result in multiple strategies to satisfy the intended objectives. It is at this stage that detailed

planning of the activities takes place with the purpose of determining the most appropriate set of actions to resolve the identified set of problems. This is described as “alternatives analysis” or “analysis of strategies.” In this stage the possible strategies that could potentially resolve the problem are compared and the most promising approaches are identified for further analysis. In the case illustrated in Figure 27.2, part of the solution might be a project to improve wastewater treatment facilities. (p. 525)

6. To answer that a project is feasible, and that it is a good thing, and avoids too much difficulty we need some of the tools of cost-benefit analysis (CBA). CBA can be done from the point of view of an individual organization, group or enterprise. This is described as financial analysis. It can also be done from the national economic point of view. This is described as economic analysis. Economic analysis can also be adapted to determine who gets the benefits and who pays the costs. This can be described as distribution analysis. (pp. 528–529)
7. The costs and benefits of a project are basically determined by a year-by-year basis in an annual statement. This is sometimes described, for financial analysis, as a cash flow or, in economic analysis, as a resource statement. In this chapter the term “annual statement of costs and benefits” will be used and qualified by factors such as whether it relates to economic or financial costs and benefits and whether it is set out in constant or current prices. Normally, CBA is conducted in constant prices of the year in which the project is planned to avoid any distortion induced by assumptions about inflation. An example of such a statement for our project is given in Table 27.1. It can be seen that net revenue is negative in Years 1 and 2 and positive in all subsequent years. What is now required is a method to determine whether this is a good project. If we simply add up all the net benefits we do not take any account of the timing of the costs and benefits. As indicated earlier, one way of dealing with time is to apply the method of discounting. The most obvious indicator to use if the discount rate is known is the net present value (NPV). (pp. 529–530)