

Valuation in development projects: enlarging the analytical framework

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The analytical models adopted to guide decision making in many development agencies are inherently biased. In using market values to decide the worth of things, these approaches are systematically biased against the interests of the poor. In assuming that *value* can be assessed objectively, they are blind to the reality that different parties value the same things differently. Thus they have little use for broad participation in the construction of reality. Indeed, by failing to acknowledge and address conflict forthrightly, they deny politics. There are better ways of seeing things.

The conventional approach to the evaluation of development projects is exemplified in J. Price Gittinger's *Economic Analysis of Agricultural Projects*.¹ Presumably there are several alternative proposed projects, and they are evaluated on a number of different characteristics. These characteristics are mostly costs and benefits, measured in money terms. The analysis can be represented in the format of a two-dimensional matrix in which the different alternatives, listed across the columns, are assessed in regard to different characteristics, listed down the rows. The answers—how each alternative does on each characteristic—go into the cells.

There are two major kinds of analysis. Financial analysis adopts the point of view of the operator of the project, and estimates the income (such as 'net benefit increase') to the operator from the alternative projects. Values are based directly on market prices, since these are what the operator gets when he sells his product and what he pays when he buys supplies.

Economic analysis assesses the value of alternative projects to society as a whole. In a perfect free market, prevailing prices would also be used in economic analysis. However, since real-world markets deviate from the idealized free market, some corrections must be made.

These 'shadow prices' provide a better indication of true opportunity costs to the economy. Much of Gittinger's book is about how appropriate market or shadow prices can be determined. Because of their responsibility for the interests of the society as a whole, development agencies are especially concerned with economic analysis.

The system of analysis is based on the idea that benefits and costs can be evaluated objectively by reference to the price system. Sometimes actual prices are used, and sometimes these are corrected to show effects on national income, but in either case valuation is taken to be objective.

For Gittinger the main effects are the economic ones that can readily be quantified 'objectively', usually in money terms. The rest can only be measured 'subjectively' and are side-effects and are, by implication, relatively unimportant in project evaluation. He says that some costs and benefits of agricultural projects such as better nutrition, new job opportunities, better health and improved water supplies are 'intangible' in that they do not 'lend themselves to valuation'. He says that for intangible benefits 'valuation is impossible'.²

Intangible costs and benefits can be valued, however, and often are. The fact that some impacts cannot be readily valued in terms of market prices does not mean that they cannot be valued. It is true

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that there is no established market price associated with some impacts, but nevertheless it is possible to place a value on them in quantitative terms. The real issue is not what *can* you measure and value but what do you *want* to measure and value.

The crucial point to recognize is that there is no such thing as an objective value. Values do not inhere in the thing being valued, but in the relationship between the valuer and the valued. It is true that one can identify the current market value for a used car, but that masks the fact that different individuals will, quite naturally, value it differently. For some purposes the appropriate figure to use might be how much the car would be worth to me, or how much it would be worth to you. For other purposes we might make the judgment that the current market price should be the figure that is used. That is nevertheless a judgment about what value should be placed on it. A used car dealer might operate on the rule that to him it is worth half the market value. For the dealer's purposes that is as valid a rule as someone else's rule that says it should be valued at its market price. Both quite properly exercise their judgments, and neither could be said to be any more objective than the other.

This means that even if market prices are available, the analyst may not want to use them as the measure of value. Another World Bank publication, also using the idea that price signifies value, said that 'food quality is measured by the average price paid for calories'.³ But the nutritional value of food is not related at all to its market price. The only way to make sense of such a statement is to assume that the authors are referring to something like the marketability or commodity value of food, a type of value which has little to do with its value for meeting human needs.

Gittinger says that 'taking the income a project will contribute to a society as the formal analytical criterion in economic analysis does not downgrade other objectives or preclude our considering them. Rather we will simply treat consideration of other objectives as separate decisions'.⁴ But it is evident that in practice other objectives are often downgraded, especially at the major development

agencies. Gittinger's book is wholly devoted to the estimation of the income-generating potential of proposed projects. The World Bank has no companion volumes of comparable power devoted to the analysis of other sorts of characteristics.

At the very end of the book Gittinger offers one paragraph on nutrition and health:

If the project is located in an area where serious nutrition or health problems exist, or if the project is directed toward groups with nutrition and health deficiencies, the expected effects of the project on those problems might be mentioned. In some cases, the effect on nutrition may be quantified in the daily intake of calories or protein that is expected as a result of the project.⁵

The book is specifically on agricultural projects, one of whose major products is food. Malnutrition is one of the most serious social problems in the world, one for which development agencies have special responsibility. It is dismaying that a book of this importance could treat the nutrition aspect of agriculture projects with such indifference.

Development projects should not be assessed only on narrowly economic dimensions but should also take systematic account of nutritional and other sorts of characteristics. In much the same way, nutrition intervention projects should not be assessed only on narrow nutritional considerations, but should take full account of all significant characteristics. Assessments which attend only to the economic or only to the nutritional aspects of projects are always overly narrow.

Understandably, private operators are likely to evaluate projects in narrow financial terms, and not give attention to social impacts. But governments and international agencies evaluating development projects should take a broader range of concerns into account. This is recognized in part when they consider economic as well as financial impacts, acknowledging a concern for impacts on society as a whole. But many different kinds of impacts on society should be considered, not just the economic ones. Indeed, it is the anticipation of these other sorts of impacts that makes them *development* projects, and not simply financial or economic investments.

Multiple perspectives

The conventional approach is to look at the decision problem in terms of a two-dimensional matrix, with *alternatives* across the columns and *characteristics* down the rows. We should add a third dimension to indicate that many different *parties* would have distinct perspectives on the different alternatives. Financial and economic analyses describe just two of many possible points of view.

Where the analyses by different parties lead to different choices as to which would be the best alternative, there is conflict. The matrix format may not do anything to resolve the conflict directly, but it can be helpful in examining the conflict and for focusing in on its core elements. The common frame of reference may help the parties to analyse the conflict between them.

The matrix is a highly generalized form for analysing choices among alternative courses of action. The generalized form accommodates not only investment decisions for well defined projects but almost any kind of decision, including how I should spend my summer or what sort of car I should buy. Project assessment of the kind described by Gittinger allows for just two distinct points of view, the financial and the economic, but the generalized form accommodates any number of points of view.

Class bias

If market price is taken to be the indicator of value, things important to poor people will consistently be viewed as less valuable than things important to rich people. Poor people do not have the money to translate their desires into market demand. This consideration is especially important when we are concerned with poor people's issues such as malnutrition. As Gittinger acknowledges:

The relative value of items in a price system depends on the relative weights that individuals participating in the system attach to the satisfaction they can obtain with their incomes. They choose among alternatives, and thus the price of goods and services balance with the values attached to these goods and services by all who participate in the market. Such a system, however, reflects the distribution of income among its participants; in the end,

values trace back to existing income distribution.⁶

The analytic system discriminates against the poor and even against the middle class when compared to the rich. It is elitist: your influence in defining the 'social good' depends on how much money you have to spend in the market.

Gittinger says that 'Project analysis takes as a premise that inequities in income distribution can be corrected by suitable policies implemented over a period of time'.⁷ He says nothing about whether such corrective policies will be implemented, or how the powerful are to be motivated to implement them—and drops the issue.

There is class bias in prevailing methods of valuation in project assessment, but there is far stronger class bias in the setting of the objectives of projects and policies.

Many agencies cast economic growth as the principal objective of development. They argue that growth is directly instrumental to many good things in society. Even where it is not the direct cause, economic growth is certainly correlated with other important aspects of a high quality of life such as good medical care.

However, economic growth is not a uniform blessing; it systematically favours the rich. In many countries the gap between rich and poor widens even as average income levels go up.

Consider for the sake of contrast the idea of using 'alleviation of malnutrition' as the major objective and indicator of national development. It too would have many important quality-of-life indicators closely correlated with it. But alleviating malnutrition would not be a uniform blessing either. Pursuing that objective would favour the poor.

The alleviation of malnutrition will not soon replace economic growth as the dominant goal of national development efforts. The point here is simply that economic growth should not be regarded as the only true, authentic, universal and exclusive objective of development. It has its biases, just like any other single goal. It tends to be raised to an extraordinary level of importance by the powerful precisely because it is of special benefit to the powerful. The powerful should see that their favourite objective is only one among

many. Many different objectives should be pursued at the same time.

Political analysis

Who gets the benefits and who bears the costs? In Gittinger's analysis distinctions are made among different kinds of costs and benefits, but there is no concern with identifying the parties on which they fall. The approach suggests that there is a singular body on which the impacts fall, and it is on behalf of that body that the analysis is made. The only distinction is that between the individual operator whose private perspective is reflected in financial analysis, and the society as a whole for which economic analysis is appropriate. There is no suggestion that one might want to give special attention to effects on, say, farm labour, or the consumers of the farm's product, or workers in other nations. Indeed, the idea that values can be determined objectively in itself makes attending to different points of view irrelevant. No wonder conservative economists have little use for analyses that distinguish the interests of different social classes.

Different parties place different values on things. People make different judgments not because some make mistakes but because people really do value things differently. Those differences ought to be acknowledged and respected.

Project evaluation is ordinarily flat, two-dimensional, but it is possible to add a third dimension to show that different analyses are made by different parties. This is essential in *political* analysis, which always asks about costs and benefits *to whom?*

Imagine a project in which there are 100 ten-acre farms with 100 separate farmers producing some agricultural product. Imagine an alternative project in which there is instead a single 1000-acre farm producing the same product, with one owner and 99 workers. If both use the same technology and there are no economies of scale, the two operations would look essentially the same in the two-dimensional analysis. It is only when we make distinctions among the different participants' perspectives that we see that not everyone's interests in the situation is the same.

Who gets what benefits and who bears what costs with different choices of action? Whether it is a question of which fertilizer to use or which agricultural product to raise, different choices would affect different parties differently. Analysis in the three-dimensional matrix makes it plain that each party can have very different preferences as to what decision should be made.

Take the example of food exports from poor countries. Economists commonly argue that a food-exporting country is not disadvantaged nutritionally because money earned from exporting high-priced foods can be used to import larger quantities of low-priced food, for a net nutritional gain. But this neglects the fact that export earnings are controlled by the rich, not the poor, which means they are not likely to be used to fulfil the needs of the poor. Analytically, this is visible only if we distinguish between the rich and the poor.

Any form of analysis that does not distinguish among different parties and their interests is blind to politics—perhaps deliberately. The politics of economics can be rediscovered only by systematically taking account of the effects of actions on different parties.

There is now a great deal of dissatisfaction with conventional classical economics, and much good discussion of alternative approaches. In my view, what is needed is not a rejection but an expansion of the old economics. Conventional economic analysis of the sort favoured by the political right should be combined with class analysis of the sort favoured by the political left. In this way it will be possible systematically to take account of the ways in which economic activities have different effects on different classes or groups.

Power

For any proposed activity there may be many different affected parties with many different preferences as to what should be done. So far we have implicitly assumed that there is a single party, perhaps you or the national government or the World Bank, that is to make the actual decision. But what if others also have some influence on the choice of action? Perhaps these others can get to you in some way,

perhaps by making threats or promises to you. Or maybe you are only an administrative officer acting out the wishes of a Board of Directors or some other kind of boss. Suppose the decision really has to be made by a committee. Then we would want to raise questions about the relative power of the different parties in determining what decision will in fact be made.

In political analysis we need to ask not only who gets what benefits and who gets what costs from choosing a particular course of action, but also how the choice of action is to be decided. To know what option will in fact be chosen we need to know not only the preferences of the different parties but also something about their power, their capacity to determine outcomes. This goes well beyond the matrix. It involves studying the concrete social and institutional structure of the situation to find out who influences what and whom and how.

In *technical* analysis, where there is not much difference in views among different parties, the analysis is based on the formulation of alternative possible courses of action, and then evaluating those alternatives to determine which is best. Finding the optimum location for a new post office or deciding which export crop would contribute more to a nation's economic growth, viewed as non-contentious matters, might be handled in this way. In adopting just one point of view, such conventional analysis is blind to politics. In *political* analysis, however, the analyst takes explicit account of the fact that in the real world there are often important conflict dimensions to public issues. There are different parties involved, with different interests and different capacities to pursue those interests. Political analysis means taking account not only of the parties' values but also of their powers, their capacities to influence decisions as to what is to be done.

Interactive analysis

The matrix presentation can be used to structure group interaction, not only for evaluation but also for other purposes in the work of political analysis and conflict resolution. Groups of individuals can work together in shaping the matrix, deciding what alternatives should be considered

and what characteristics should be taken into consideration, and then discussing the answers to the questions corresponding to the cells.

The matrix-based interactive process is especially useful for dealing with conflict. Individuals representing the conflicting parties would be assembled together in a meeting. It would then be explained that the purpose of the meeting is not to resolve the conflict directly, but to help all parties come to a better understanding of it. That better understanding may or may not lead to resolution.

The ground rules would specify that the discussion is to be about what should be done, that is, what action should be taken. It is not about who is right and who is wrong. The facilitator could then take the parties through a systematic effort to say what are some of the major kinds of action that could be taken, what are their important characteristics, and what would be their advantages and disadvantages to the different parties. The discussion would begin with the two-dimensional matrix, but then as disagreements emerge additional matrices would be drawn up to reflect the perspectives of different parties, thus adding the third dimension.

The answers would not literally have to be inserted into the cells, but the matrix format could be used to structure the discussion. If the parties are willing to go through it, this procedure establishes a common frame of reference, opening new possibilities for communication. This interactive approach to evaluation using the three-dimensional framework is based on plain acknowledgment that different observers see things differently, and those differences should be acknowledged and respected.

Notes and references

1. J. Price Gittinger, *Economic Analysis of Agricultural Projects*, 2nd edition (Baltimore, MD, Johns Hopkins University Press, 1982).
2. *Ibid*, pages 1–2.
3. C. Peter Timmer, Walter P. Falcon and Scott R. Pearson, *Food Policy Analysis* (Baltimore, MD, Johns Hopkins University Press/World Bank, 1983), page 57.
4. Gittinger, *op cit*, reference 1, page 45.
5. *Ibid*, page 428.
6. *Ibid*, page 11.
7. *Ibid*, page 11.