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## **Towards a more Realistic Appraisal of Development Projects in Developing Countries**

Vers une évaluation plus réaliste des projets de développement dans les pays en développement

Beitrag zu einer realistischeren Bewertung von Entwicklungsprojekten in Entwicklungsländern

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### **SUMMARY**

In the first part of this paper an attempt is made to classify the developing countries into two groups, the oil exporting and non-oil exporting countries, and to formulate the characteristic features of each group. These characteristics form the basis for the choice of ways and methods to be used in developing a particular area. Finally, the major difficulties which may arise in the planning and execution of development projects, in both oil exporting and non-oil exporting countries, are presented.

### **RESUME**

La première partie de cette contribution essaye de classer les pays en développement en deux groupes: les pays exportateurs de pétrole, et ceux qui n'en exportent pas; les caractéristiques de chaque groupe sont présentées. Ces caractéristiques sont à la base du choix des moyens et méthodes à utiliser pour le développement d'une zone particulière.

L'article mentionne enfin les plus grandes difficultés qui se produisent lors du projet et de l'exécution d'aménagements dans des pays exportateurs et non-exportateurs de pétrole.

### **ZUSAMMENFASSUNG**

Im ersten Teil dieses Beitrages wird versucht, die Entwicklungsländer in zwei Gruppen, die ölexportierenden und die nicht-ölexportierenden Länder, aufzuteilen und charakteristische Merkmale der beiden Gruppen zu formulieren. Diese Merkmale bilden die Entscheidungsgrundlage für die Wahl der Wege und Methoden, die bei der Entwicklung eines bestimmten Gebietes anzuwenden sind. Abschliessend werden die hauptsächlichen Schwierigkeiten aufgezeigt, die bei der Planung und Verwirklichung von Entwicklungsprojekten in ölexportierenden und nicht-ölexportierenden Ländern auftreten können.



## 1. INTRODUCTION

Developing countries have varying levels of development which may be considered in terms of literacy rate, per capita gross national product (GNP), and the share of industry in the formation of GNP. Therefore, it may not be practical to develop a growth model which would be applicable to most developing countries, even if the past pattern of industrial growth of the industrialized countries may be considered.

It is equally true that developing countries have embarked on economic and industrial planning in order to achieve higher standards of living. Capital projects have thus been studied, designed and implemented in order to achieve planned targets. However, projects have been facing several difficulties of political, economic, financial, technical and managerial nature to the extent that many of them have fallen short of expectations.

## 2. OBJECTIVE OF THE PAPER

Bearing the aforementioned in mind, the paper will try first to classify the developing countries, which are the subject matter of this Symposium, and indicate briefly the main differences that exist between them. These differences are basic to the choice of the developmental path to be adopted and the developmental work required at both the aggregate and project levels. The paper then will discuss briefly the main causes of difficulties which have significant influence on accomplishing these projects. The objective here is to provide a check list of the causes of difficulties in order to complement the usual criteria being used in appraising the viability of projects thus achieving more realistic assessment of projects. Although many of the causes of difficulties cannot be quantified for objective consideration in project evaluation, their subjective consideration is still essential for reaching more reliable project decisions.

## 3. THE DEVELOPING COUNTRIES

Developing countries or what has become to be called the "Third World", cannot be considered as one group. Their development process depicts different profiles depending on their varying levels of development, financial capacity and natural and human resources. While developing countries were primarily divided into rich and poor countries, they have often been classified, as a result of the so-called oil crisis, into oil-exporting and non-oil-exporting countries. This classification needs some qualification as it does not adequately indicate the different development potential of these countries.

### 1. The oil-exporting developing countries

The oil-exporting developing countries comprise in fact two groups. The first group consists of those countries which enjoy a remarkable surplus of capital despite the investments stipulated in their development plans and programmes which aim at converting oil resources into industrial and other capacities. Surplus capital could be invested in other developing and/or advanced countries in order to make up, at least to a certain extent, for the expected full or partial depletion of oil resources. Accordingly, these countries are, in effect, capital exporters. The second group comprises those developing countries which have relatively fewer oil resources than the countries of the first group but which enjoy a relatively higher capacity of absorption of capital and for this reason are not capital exporters.

In certain instances they even promote foreign investment and thus become capital importers. In creating a sound economic and industrial base, these countries need the full utilization of all available resources, including oil, in a process of balanced development.

## 2. The non-oil-exporting developing countries

The non-oil-exporting developing countries also show two distinct groups. The first group includes those countries which are characterized by limited capital and natural resources and a relatively large population. These countries, however, have a great potential of development in one or both of the two basic economic sectors: industry and agriculture. They have been able to create a viable labour force which can be adapted and upgraded to provide the required skills needed in the technological and managerial fields. This labour force can be instrumental in the development process of other countries, in particular those located in the same region. The second group comprises those developing countries which are known as the "least developed countries", which are less developed than the other three groups. In fact the least developed countries have fewer natural resources, less growth potential and a less developed labour force.

The aforementioned suggests that the strategy of development and the objectives and kind of development projects in these countries should vary considerably.

Due to the prevailing situation of the world economy, international and regional cooperation has become an important component of the development policy of developed and developing countries. This has recently been reflected in the north-south dialogue and the south-south dialogue. The cooperation between developed and developing countries and between the developing countries themselves has steadily been increasing at both the bilateral and multilateral levels and has also taken various forms. Many countries have worked out regional programmes for the development of certain sectors of the economy based on each country's factor endowment and comparative advantage, particularly in the long run. Some countries have even gone one step further and initiated regional and/or interregional projects in various sectors of the economy such as in petrochemicals, transportation and communications and many development projects in construction, iron and steel and engineering industries have come under bilateral programmes.

In this connection, three observations can be made. The first is that this cooperation has covered to a great extent the various developmental stages of development projects. The second is that the increasing cooperation between developed and developing countries has indicated that the causes of difficulties impeding the satisfactory accomplishment of these projects in developing countries cannot be considered as the concern of these countries alone, but also that of the developed countries and the international organizations. Finally, the viability of a development project throughout its stages of development and the efficient operation of the completed facilities once construction is finished depend on whether the potential causes of difficulties affecting this process of evolution have adequately been considered in addition to the usual criteria of project appraisal in order to arrive at realistic project evaluation decisions.

As these causes of difficulties are of essential importance for consideration by developing countries when introducing practical improvements to the manner in which development projects are planned, appraised and implemented, they are briefly mentioned below.



#### 4. MAJOR CAUSES OF DIFFICULTIES INFLUENCING THE SATISFACTORY ACCOMPLISHMENT OF DEVELOPMENT PROJECTS IN DEVELOPING COUNTRIES

As mentioned before, developing countries have been preparing, designing and implementing projects in their efforts to develop. Not all these projects were implemented successfully or satisfactorily. It is not uncommon that projects in developing countries have incurred lengthy delays and overrun of cost. Experience has indicated that this has mainly been due to the inadequate identification and consideration of the causes of difficulties influencing the undertaking of projects.

The process of evolution of a development project, from its inception as a notion or an idea until it becomes an operational entity depends on decisions and courses of action which are taken at the project level and at higher levels as well. In other words it is very much related to what I may call the "project organizational environment" which includes, besides the project itself, the diverse public and private organizations which have to participate in the study, evaluation, design and implementation of the project. They may include organizations such as the state planning organization or board, ministry of construction and housing, ministry of industry (in the case of industrial projects), ministry of finance and ministry of labour and a host of other agencies such as the state service road utilities, international financing agencies, prime contractor for building, equipment suppliers, material suppliers, consulting firms and training institutes.

The decision process and time necessary to study, plan and implement a project have resulted in many situations where the sponsors of the project, be it the government authorities or private entrepreneurs, arrive at a decision to invest and later become discouraged when implementation of such a project does not achieve the established objective. In this regard the fundamental causes of difficulties are many and should be taken into account in order to complement the criteria usually considered in appraising the feasibility or viability of a project.

It should be noted that the causes of difficulties which are stated below are applicable to construction projects as well as to development projects in other sectors of the economy. Besides lack of finance particularly the foreign exchange component, the inadequacy of infrastructure facilities and lack of skilled manpower in most developing countries, selected causes of difficulties may briefly be classified as follows.

##### 1. Political causes

- a) Political instability in some developing countries may hinder the development programmes from running the full course, causing changes, costly delays of project work or even cancellation of projects. Experience shows that due to changes in the line of government policy in a country, some development projects including those with foreign investment or assistance may lack government support, or be subjected to unfavourable constraints or decisions.
- b) Political decisions for selecting development projects may be made without adequate planning or on the basis of insufficient technical information.
- c) Adoption of too ambitious development targets and over-estimation of a country's material, manpower and capital resources are often experienced. As a result projects including foreign/local joint venture projects are delayed as for example

when local commitments in terms of construction and infrastructure facilities cannot be provided on time.

## 2. Environmental causes

- a) The inadequacy of the administrative machinery in a country has impeded the effective decision-making at the project level. It is true that the development of the economy of a country is not often accompanied by reforms in the administrative machinery in order to cope with the increasing complexity of the development process. Even when reforms are sought, the relatively long gestation periods required to put them into effect often minimize their impact. Consequently, lengthy procedures are common administrative practices for obtaining, for example, government release for foreign exchange required for importing raw materials and equipment, and government permission for expatriates particularly those needed at higher echelons posts.
- b) Conflicting interests and lack of common language may impede the conclusion of agreement or establishment of effective cooperation among the diverse public and private organizations participating in developing a project.
- c) Some public development projects may be considered as instruments for election promises, national prestige, political pressure and interest of power centres. Besides the political decisions in selecting these projects for implementation, it is not uncommon for some politicians and government executives to influence the various stages of their development.

## 3. Economic causes

- a) Lack of systematic preparation of development programmes has caused the inadequate consideration of the forward and backward linkages between interrelated projects and hence the difficulty in achieving project objectives due to delays and cost increase.
- b) Rapid postulated rates of economic growth are often not backed by well-designed projects. More attention and time are often given to the preparation of development programmes than to the study and preparation of individual projects. Consequently, these programmes may run the risk of selecting projects, for their implementation, which are not well-prepared or far from being viable.
- c) Economic constraints which may appropriately be set up by a government to improve the economic situation of a country as a whole may have an adverse effect on some individual development projects. Government-imposed controls on foreign trade services as an example. Project management strives to complete the project on time in order to avoid problems such as opportunity foregone, loss of markets and overrun of cost. If the project performance does not meet this objective, the project duration should be shortened. In this regard time-cost trade-offs are a valid management policy of which the foreign trade is a viable instrument. Accordingly, the goods and services which require a long time to acquire from local markets could be imported. However, this may not be possible due to government controls on foreign trade.



#### 4. Technical causes

- a) Lack of social, economic, fiscal, monetary and technical information has impeded the adequate preparation of project feasibility studies and reliable project evaluation. Although the situation varies greatly from one country to another, at a general level, the need for information requires: first, to organize available data for easy use and retrieval; and second, to identify, collect, classify and store data which is not available.
- b) Lack of common language between scientists, technologists, economists and politicians and failure of technologists to present their information in an understandable way has impeded project feasibility studies, project evaluation and financial decisions.
- c) While there are good local contractors in many developing countries, there are other developing countries, in particular the least developed countries, where local contractors may still present a problem for construction work. In these countries contractors may have limited physical, technical and financial capacity and thus may not be in a position to adhere to stipulated time and performance criteria. The problem is further aggravated by the fact that the cheapest offers, which are not always the best, are often selected, which may lead to poor quality of construction and costly delays. It is not surprising to note situations where contracts are stopped and sometimes cancelled and projects are submitted for retendering at additional cost.

#### 5. Managerial causes

- a) Inadequate understanding of the project organizational environment on the part of the project sponsors and/or project management has resulted in inadequate project organization, duplication of functions and lack of coordination and control.
- b) Although a number of developing countries have recently succeeded in building a cadre of managers, most developing countries still operate under severe scarcity of professional managers and well-qualified management personnel. As a result the management of public and semi-public projects is often entrusted to civil servants whose entire experience has been in public administration. However capable they may be as civil servants, they would, in this field, be handicapped by their training (being thorough and cautious; working within the regulations), while project management needs people who are enterprising and who are able to take risks.
- c) Foreign management personnel may find it difficult to adapt project management techniques being used in advanced countries to a tradition-bound environment. The same can also be said for many local management scientists who were trained in advanced countries.
- d) With reference to the previous point, it is not unusual that inadequate rapport may exist between foreign management personnel on the one hand and politicians and economists on the other. Lack of communication between foreign management personnel and policy-makers in developing countries has adverse effect on projects.