

---

## Book Reviews

---

Ministry of Overseas Development, **A Guide to the Economic Appraisal of Projects in Developing Countries**, HMSO, 1977, £4.00.

*John D. MacArthur*

Having been close to the debate on both the validity and the correct methodology of shadow pricing and the comprehensive economic appraisal of projects, ODM decided some years ago to adopt a simplified form of the Little-Mirrlees procedure for application where relevant to the appraisal of projects supported with British project aid. The Ministry appears since to have applied economic appraisal in a more forthright and systematic way than most donors, and a substantial number of ODM economists have used the approach. For a uniform methodology to be used across the board, basic features of the Ministry's approach had to be established. However, the Ministry decided not simply to prepare a house manual, but to publish a guide which explained their recommended and adopted system—a reflection, no doubt, of confidence both in the chosen methodology and in its interest for others. Since their first guide was published in 1973 the underlying methodology has been tested and developed further. To take account of this and of new ideas, this new 'Guide' has been published. It is a useful addition to the literature of project analysis.

The 1977 Guide is in many respects very similar to the first version. The 25 comprehensive checklists for projects of different kinds are retained as a large appendix which takes up more than half of the new edition. Two have been rewritten and a few others extended. Many of the other appendices and sections of the main work are also reprinted in exactly or largely the same form. However, a number of very significant changes have been introduced, lengthening the substantive section of the Guide from 26 to 50 pages. Chapter 2 in the first edition has been expanded, to allow not only for fuller discussion of the considerations relevant to project appraisal from the viewpoint of 'Allocative Efficiency', but more significantly, for the treatment of 'Distributional Issues', both in a new Chapter 3 and in an appendix on 'Using Consumption Weights in Project Appraisal'. These extensions of the technical discussion of methodology are accompanied by two other significant

innovations, namely a brief simplified illustrative case study (Chapter 6) and a table of main accounting prices (standard conversion factor, shadow wage rate, accounting rate of interest) used by ODM economists for the appraisal of projects in particular sectors in 11 different countries.

These additions are admirable and timely. The new topics are well treated, and are a welcome indication that the London-based bilateral donor is well up with the Washington-based multilaterals (IBRD and I-ADB) in allowing in their appraisal methodology for the increasing recent concern that emphasis should be given in aid programmes to developments likely to benefit low-income rural groups and the urban poor. The discussion of the new issues and their incorporation in project appraisal is soundly based and realistic. Those informed readers who are believers in shadow pricing will be impressed by an approach designed and used by a group of practical economists who appreciate not only the issues and theoretical niceties, but also the need to make a fair stab at a comprehensive economic and (if necessary) social appraisal in a short time and with limited data. Publication of a selected set of accounting prices, almost always rounded to either one decimal place or a simple fraction—the only exception is the Nepal standard conversion factor: 0.89—suggests a modest, no-nonsense practice well aware of the accuracy limitation of what is being done, but confident that even crude shadow pricing is valuable.

Admirable though all this undoubtedly is, the objective of publication is not clearly evident, either from the Preface or from the Guide itself. It is particularly unclear what market is aimed at. The Preface refers to a practical basis for the economic appraisal of projects: '... the Guide is concerned with operationally valid ways of providing the kind of analyses essential if expenditure decisions are to further economic development'. However, although the Guide emerged from the ODM economists' manual, it is not itself a manual. All the issues are discussed and—in this reviewer's view—they are generally discussed correctly. However, whilst the discussion always concludes by saying what should be done in principle (underlying principles are not often discussed; the Guide is not a text-book), little is said about what should

be done in practice. In this respect there is substantial unevenness in treatment. Thus, it seems remarkable that while almost three pages of text and a table are devoted to the probability distribution of net present value (which I doubt whether ODM economists often—or ever—calculate for a project), and much space is devoted to the discussion of income distribution and associated weights, nothing is said about how the SCF is calculated, though this is a parameter likely to be used at one level or another in the appraisal of every project to which this method would be applied. This is a particular illustration of several instances of unbalanced treatment, but an aggravating one in view of the 'if properly calculated' reference in the appendix on conversion factors to the SCF and its analogue, the shadow exchange rate.

This shortcoming is no doubt one reflection of the fact that the Guide is the work of many hands. This is reflected in other ways. Occasionally expression is difficult, both in some of the longer footnotes and in the text, a particularly unfortunate example being half of the first and all of the second paragraphs in the most important Chapter 2. Although the editor (editorial committee?) of such a publication clearly has a difficult task, it seems that, in several respects, the best balance has not yet been achieved in this second edition. The whole subject of how to derive general and commodity or commodity-group Conversion Factors calls for more detailed consideration and illustration, if need be at the expense of full treatment of less fundamental topics.

Who will find this Guide valuable? Projects officers not well versed in the theory and practice of economic appraisal will find insufficient material here to enable them to undertake an economic appraisal. Many indeed could be put off by the breadth of coverage. A very wide range of issues is discussed, touching on both externalities and valuation, but there is little indication of the relative frequency of occurrence or overall importance of some of these factors and the uninitiated could feel threatened by the plethora of potential complications. Students of the subject may find it a useful short revision document, but its use as a teaching text is limited to one or two of the more elaborated sections. However, those 'in the business' will find valuable both the simple explanations given of considerations that can arise, and the generally well-based qualitative guidance given on the likely importance of many of the allocative factors discussed in Chapter 2. It is this practical advice based on several years' experience of the method in use which the practitioner will value most.

Parallels might be drawn between this publication and analogous documents emanating from the World Bank. Although not yet part of regular Bank procedure, the Squire and van der Tak text is also based on Little and Mirrlees, and outlines a method very similar to that of this Guide, differing significantly only in its degree of elaboration and its algebraic content. However, that text is supplemented by an operational guide (with worksheets and numerical illustrations) and a full illustration of the method applied to the derivation of conversion factors for one country and their use in the appraisal of a couple of projects (see Bruce 1976 and Little 1977). It is unfortunate that this Guide went to press before the publication of the recent paper illustrating the ODM method in use (Porter and Walsh 1978), but even that example and the very simplistic case in the new Guide are insufficient to show how the basically very sound ODM method can be used as a practical tool of value in estimating the merit of particular investment proposals. Presumably one of the objectives of publishing the Guide would be the hope that those concerned with laying down the approaches to project analysis to be used in particular developing countries would see merit in following an approach of this kind, and look upon this methodology as more than just the tiresome procedure insisted on by one particular donor. But if the method explained in the ODM Guide is to be seen in this light, more is required than the unaccompanied publication of this booklet, sound and valuable though it is.