

Book Reviews

Development Projects Observed by A. O. Hirschman. The Brookings Institute, 1969.

There has been persistent dissatisfaction in Pakistan, both at official and unofficial levels, with the performance of public-sector projects. While there are some notable successful exceptions, on the whole, projects take a long time to get started; there are large over-runs on estimated investment costs; the period of investment often proves to be longer than expected; technical difficulties trouble production and anticipated markets do not materialize. It is questionable in some cases whether even the original conception of the project, as costed and conceived, would have resulted in a net benefit to the economy. In every sector and in both wings of the country there are examples of projects with such problems.

The reaction in Pakistan to poor performance has taken several forms. The semi-autonomous bodies and government agencies responsible for projects are criticised on grounds of inefficiency. Foreign consultants are accused of inadequate project preparation. The Government of Pakistan has attempted in recent years to build up the capacity of the public organizations sponsoring projects and the Planning Commission and Planning and Development Departments, who review them, to select better projects and implement them more successfully.

Efforts to improve projects have been concentrated mainly on quantifying better benefits and costs by improving forecasts of the time streams of benefits and costs and the application of discounting methods in order to allow for the time value of money, which is of some considerable importance in an economy like Pakistan's, where interest rates are relatively high. The Government is also attempting to undertake economic, as distinct from financial, analysis of major projects so as to eliminate the effects of policy variables and transfers, such as taxes, on the ranking of projects.

Professor Hirschman comes very close to telling us that this approach is a lot of nonsense, or at least that it diverts attention from the more important factors which really determine the results of a project. In "*Development Projects Observed*", which was published several years ago and is the result of

an analysis of the experience of a number of public-sector projects financed by the World Bank including the Karnaphuli Mills, he observes that:

The quest for a unique ranking device probably accounts for the hostility of economists toward side-effects and secondary benefits. Yet, this quest is clearly futile. How could it be expected that it is possible to rank development projects along a single scale by amalgamating all their varied dimensions into a single index when far simpler everyday choices require the use of individual or collective judgment in the weighing of alternative objectives and in the trade-off between them?

Have the economists in Pakistan and elsewhere who have been using variations of cost-benefit analysis to assist government officials in choosing projects been barking up the wrong tree? Or, has the Professor merely tied a dead chicken around their necks in order to remind the economists that they must be much more careful to take into account the effect of social and political factors when estimating the likelihood that certain amounts of benefits and costs are likely to be realized?

To understand this case, it is necessary to see which features of the projects which the author reviewed struck him as most outstanding. These may be briefly summarized as follows.

First, the overestimation of benefits may be a beneficial development for a developing economy. The planners underestimate the difficulties which may be facing them and their capacity to deal with the problems the project may present. The result is that projects are undertaken which otherwise would not be attempted. The author calls this "the principle of the hiding hand". By meeting the unforeseen difficulties, the project planners gain confidence, are able to discard the illusion that projects are easy and achieve "a more mature appraisal of new projects".

Another area of the author's interest is the uncertainties associated with projects, the affinities of various types of uncertainties for different kinds of projects, and the ways for reducing the uncertainties faced by each type of project. The uncertainties distinguished are ones familiar to those with an interest in projects in Pakistan; uncertainties in obtaining the planned output due to technological, administrative and financial difficulties, and uncertainties due to either excessive or inadequate demand. Certain types of projects are particularly vulnerable to certain types of uncertainties. For instance, a project may experience administrative difficulties because intergroup conflict has been built into it as, says the author, happened at the Karnaphuli Paper Mills. Space is too short here to go into other examples of project affinities for various types of uncertainties. But anyone who deals with projects will find interesting

material for reflection in this section. In this assessment of project, uncertainties, however, can be found the seeds of the author's view that quantification of the attractiveness of project is a nearly useless business.

Professor Hirschman's main attack on the benefit-cost analysts is mounted in the sections which deal with appropriate project design. The art of project design, so the argument goes, is to incorporate into the project a combination of existing and new "traits" suitable to the particular country and the particular project. If the success of a project is based too heavily on local characteristics—let us say, for instance, that activities are performed by hand instead of machine, since the country has surplus labour, then, while the project would contribute to output, it would not contribute to teaching new skills. There is the additional danger in this case that production efficiency may be reduced, costs increased and quality lowered. At the other extreme, in the absence of local skills or materials for constructing and operating projects, project designers may import these. This procedure may discourage or destroy incipient local production and skill development.

On the other hand, project designers may rely too heavily on making new skills or traits, or worse yet, ignore the question of whether the required skills or traits exist or can be created. This failure was at the bottom of several of the more serious difficulties experienced by the projects summarized and there is no doubt that Pakistan's projects suffer from similar difficulties.

The autonomous agency is one device widely used for escaping from the restrictions which existing institutions place on development and for implementing more rapidly "modern" activities. Pakistan has made extensive use of this device with mixed success and the organization and operation of the autonomous agencies are a subject of considerable current interest. The author observes that the autonomous agency is most likely to be successful when the innovations it must introduce are highly technical; in Pakistan WAPDA and PIA are examples. Autonomous bodies operating on site-bound projects also have better chances for success.

There are, however, a number of areas in which the autonomous body can go as wrong as the inefficient governmental bodies which it is intended to bypass. It may be infiltrated by members of the "old order", both political and administrative, which it was supposed to bypass. It may become the captive of a regional political party or tribe. If it is too insulated from politics, it may not be able to obtain the backing of government in order to achieve its objectives, particularly where these are socially, politically or administratively controversial. If it is backed essentially by an international organization, it may be suspected of being subservient to foreign domination. The style and relative efficiency of the autonomous agency, which is often a requisite of their modern activities, makes them a target of resentment. The extensive powers often conferred

upon the Boards of Directors of autonomous bodies may be unrealistic, for the government may in fact be unwilling to relinquish authority to the extent formally implied. It is, observed the author, basically "a rather unstable arrangement". It incarnates the dilemma that the project designer faces balancing of existing traits against new traits in designing, executing, and operating projects. In the experience of the autonomous or semi-autonomous agencies of Pakistan can be found numerous examples of problems of this nature which Pakistan shares with other countries.

Pakistan has relied a great deal on the import of technology and foreign administrative and technical people to construct and operate public-sector projects, generally under one form or another of aid agreement. Pakistan's experience is not so bad as some other countries; the majority of projects are completed and operate for the purposes anticipated in the design of the project. But, as was noticed at the beginning of this review, that is not to say that Pakistan's experience with development projects has been altogether happy.

There has been an excessive reliance on foreign imports of skills and technology. Too frequently local conditions have been ignored and we see a direct transplant of foreign processes and systems into an essentially incompatible environment. There has been a failure to build up local, administrative, and technical skills which trace partly to the dominance in government agencies and autonomous bodies of an essentially administratively oriented civil service class and partly to a reluctance to pay the price required to attract and hold and encourage people with the required skills. There are flagrant examples of projects which have been or are to be undertaken strictly for political reasons in defiance of economic logic.

Professor Hirschman's insistence on the importance of taking into account the effect of social and political factors on the outcome of a project is important. But it is doubtful whether those economists who try to quantify the benefits and costs of projects will find it advisable to abandon their approach. Projects in many developing countries are still primarily undertaken for political reasons or justified by totally unacceptable quantitative measures. The quantitative criteria now in use, on which there is much wider agreement now than there was in the past, serve as a corrective to the tendency of the sponsors of projects to advocate projects irrespective of their economic attractiveness.

Evan R. Rotner
Harvard Advisory Group
Islamabad (Pakistan)