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Vergin, Heinz - Articles and Speeches (1967) - 1v

*Mr. Eliam
In a file
Copy sent to Paris*

September 28, 1967

Mr. G. Melin
Deutsche Stiftung für Entwicklungsländer
1 Berlin 27, Reihewerder
Germany

Dear Sir:

Re: International Conference on Cooperation
in the Field of Integrated
Projects (IT 34)

Please find attached a report on the World Bank's experience with an integrated approach to the economic evaluation of the Tarbela Project in West Pakistan. This project has been the object of intensive studies by the World Bank and its consultants and in the preparation of this report I have drawn on the "Study of the Water and Power Resources of West Pakistan" prepared by a Group of the Bank's staff headed by Dr. Pieter Liefstinck. I was a member of this study group and carried out the linear programming analysis of investment in irrigation and agriculture which formed part of the Study.

Since an adequate integrated presentation of those parts of the Study which pertain to the Tarbela Project would exceed the customary limits set to a conference paper, and since a summary presentation would run the risk of distorting the approach and position taken by the Bank Group's report on the study, I have extracted from that report those parts which would seem to be most relevant for an illustration of the integrated approach used in the evaluation of the Tarbela Project. The excerpts chosen are sufficiently self-contained to make such an approach possible.

In response to your request for a list of discussion questions related to the subject matter covered in the participant's report, I am also attaching a list of questions which, in my opinion, are being raised by the use of an integrated approach to the economic evaluation of development projects. While these questions grew out of the experience gained in the Indus Special Study, they do reflect in my opinion some general problems encountered by project-oriented development aid which attempts to transcend the project as the unit of concern.

Yours sincerely,

Heinz Vergin
Economist, Projects Department

HVergin:poc

Attachments

Cleared with and cc Mr. Lara/Lind

Cleared in substance with and cc to Mr. Sadove

Problems Raised by the Use of an Integrated Approach to the Economic Evaluation of Development Projects

I. What is meant by an "integrated approach"?

The integrated approach illustrated by the various excerpts from the "Study of Water and Power Resources in West Pakistan" may be defined as an approach to investment planning which attempts to transcend the project as the unit of analysis. Thus, it is a departure from the usual formulation of an investment program which proceeds via the summation of various individual projects which on the basis of isolated evaluations using market prices had been found to be "economically viable". Instead, an attempt was made to use an expanded framework of analysis which gave explicit consideration to other important investment opportunities in the water and power sector and which captured various forms of interdependence between different development-or investment decisions. To this end two methods were used, one remained within the context of the project-oriented cost/benefit analysis, but tried to use prices for inputs and outputs which reflect more accurately the relative scarcity or opportunity cost of the respective resources; the other method used programming techniques which view the project as a component of a sectoral investment program and consider it, together with a large number of other projects, simultaneously in competition for certain restricted resources.

II. Problems raised by the "integrated approach":

If one considers the "programming approach" in its broadest sense as representative of the most ambitious integrated approach to the evaluation of a development project, what are the questions raised by the much wider scope of such a project evaluation?

1. The most immediate problem which arises in the choice of this method is related to the greater data requirements of program evaluations as compared to project evaluations. While it is difficult to generalize about this point because the feasibility and costs of an integrated approach have to be judged anew for each case, the difficulties are often overstated by a comparison between the data requirements of a "pro forma" project evaluation and those of an ambitious programming model. Judicious choice of analytical methods can often add valuable insights at low extra cost. In this context it is worth mentioning that often the data collection effort of pre-investment studies could be made to yield much broader insights at little or no extra cost if the data gathering had not only oriented itself by the requirements of the project approach but also by the needs of an integrated or systems approach. Of course, the trade-off between depth and scope of the data collection effort would have to be determined in each particular pre-investment study.

2. Let us assume that the importance of a particular project (in terms of its capital cost relative to the total available development funds in the respective economy, or in terms of the strategic place that the project occupies in the development of a complex system) warrants the adoption of an integrated approach and that the project has been evaluated in the context described above. In this case, the use of this approach will by its very nature stress the close dependence of the particular project upon the implementation of the total sectoral investment and development program in the context of which the particular project was evaluated. In other words, if the integrated approach demonstrates that the economic viability of a particular project depends crucially upon the implementation of other projects or the implementation of a particular development strategy, this result of the integrated approach raises important questions about the side-conditions subject to which project-oriented development aid should be made available. For instance, should the financing of the project be made dependent upon the acceptance of the sectoral development program which was used in the evaluation of the project's economic justification? Alternatively, should the economic evaluation be based upon the development program, which has the greatest likelihood of being implemented even though it is judged to be sub-optimal? What is the proper scope of project-oriented technical assistance? Does it properly extend to the evaluation of the countries sectoral investment programs, and if these programs do not exist, or are not detailed enough, should the technical assistance effort extend to the formulation of such plans?

Thus, it can be seen that the advocacy of a more integrated approach to project lending leads directly to questions about the role of sectoral development planning and development plans in general. Simultaneously, it raises the question whether the resources presently devoted to the evaluation of "isolated" projects by donor countries and international agencies could be more efficiently used, at least with regard to projects located in some recipient countries, to evaluate, or if necessary to formulate sectoral investment programs. Once such programs have been formulated, and provided they are kept under periodic review, they could considerably facilitate the priority assessment of a particular project.

3. Finally, this sample of questions raised by the use of an integrated approach to the economic evaluation of development projects ought to introduce the basic question of whether or not the methods which modern operations analysis has to offer to an integrated approach to investment planning in developing countries have sufficiently matured to warrant their acceptance by responsible decision makers in charge of the administration of development finance.