

MIT 11.484J/11.144J (3-0-9)
PROJECT APPRAISAL IN DEVELOPING COUNTRIES

Spring 2014
Class meets every Monday and Wednesday
12:30–2:00 pm
Room 9-450A

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Office Hours: Mon. 12:30-2:30
or by appointment

Description and Objectives

Policy makers and analysts around the world are facing difficult policy decisions everyday. For instance, should informal settlements in a city center be relocated to the urban fringe? If not, what are the alternatives? If so, would the relocation project make sense financially, socioeconomically, and politically? Similarly, should municipalities charge user fees instead of raising the property tax to finance a road improvement project? What are the financial and socioeconomic benefits as well as costs of these two financing schemes?

In a complex world where political and socioeconomic considerations interact with each other, predicting and measuring benefits and costs of a particular program is not always straightforward. When programs are evaluated, scholars and practitioners do not use a standardized method. Evaluators who rely on economic modeling tend to assess projects or programs based largely on financial and economic outcomes, such as changes in investment return, output, and employment. In contrast, assessors who use political economy and organizational approaches focus on how governance and organizational behaviors affect policy performance. Both perspectives are necessary for a comprehensive evaluation.

In this class, we will examine four program evaluation methods, including (1) financial benefit-cost appraisal; (2) economic benefit-cost analysis; (3) political economy assessment; and (4) organizational approaches. Because the first two methods are more commonly used by practitioners, we will spend the major of our class time discuss them thoroughly. In addition, the possibility of integrating these four approaches into a coherent evaluation framework will be explored. The objective is to help students learn how to select or combine evaluation frameworks for measuring and evaluating the financial, socioeconomic, and political effectiveness of urban programs.

Requirements and Grading

Requirements:

1. Class Participation (40 percent of final grade)
You will learn some of the basic steps to use the four evaluation methods to assess public programs and projects. Thus you are expected to read the assigned materials

and case studies carefully prior to come to each class and participate actively in the discussion.

2. Term Case Study (60 percent of the final grade)

Writing and oral presentations are essential components of the learning process and your professional performance. The purpose of the team case study is to assign you to a policy topic or project that you will research, analyze, and present recommendations for improvements. This will involve both written activities and an oral presentation in class.

The team case study has two major components. First, you will:

1. conduct research on the background of a public program or project chosen for the team case study;
2. identify public and private agencies involved in the project and other stakeholders;
3. conduct a pre-implementation financial, socioeconomic, and/or political impact assessments; and
4. design your recommendations.

For the first three research operations, you will submit a short (3-page) memorandum to me as follows:

- Memo 1—Issue Background and Situation, due March 5, 2014 (6 percent)
Memo 2—Primary and Secondary Information, due April 7, 2014 (7 percent)
Memo 3—Pre-implementation Impact Assessments, due May 7, 2014 (7 percent)

Second, building upon the synthesis of your short memos, you will write a final paper with your recommendations and make an oral presentation in class.

1. Final paper due May 16, 2014 (20 percent)
2. Oral Presentation on May 12 or 14, 2014 (20 percent)

I will provide you with further details of the requirements for the memos, final paper, and presentation two week prior to the due date of each of these assignments.

Grading:

Students will be graded according to the following weights:

Class participation:	40 percent
Research memos:	20 percent
Class presentation of the case study:	20 percent
Final paper of the case study:	20 percent

Final grades are based on a weighted average for the term. Grade cutoff points are: A+ = 97-100%; A = 93-96%; A- = 89-92%; B+ = 85-88%; B = 81-84%; B- = 77-80%; C+ = 73-76%; C = 69-72%; C- = 65-68%; D+ = 61-64%; D = 57-60%; D- = 54-57%; F < 53%

Prerequisites

This course has no prerequisites. It will help if you have already had some familiarity with the basic concepts and terminology of economics and finance.

Disabilities

If you have a documented disability, or any other problem you think may affect your ability to perform in class, please see me early in the semester so that arrangements may be made to accommodate you. For more information see:

<http://studentlife.mit.edu/dso/students>

Academic Misconduct

Plagiarism and cheating are both academic crimes. Never (1) turn in an assignment that you did not write yourself or (2) turn in an assignment for this class that you previously turned in for another class. If you do so, it may result in a failing grade for the class, and possibly even suspension from the Institute. Please see me if you have any questions about what constitutes plagiarism. Anyone caught cheating will be reported to the Provost in line with recognized university procedures.

For more information see: <http://web.mit.edu/academicintegrity/>

Topics and Schedule

February 5 *Introduction and Course Overview*

I Evolution of Policy and Project Evaluation

February 10 *Policy and Project Evaluation as a Discipline*

February 12 *Policy and Project Evaluation in Urban Planning*

February 17 *Holiday—President's Day*

II Why Do We Undertake The Project, and For Whom?

February 18 & 19 *Framing Policy Issues*

February 24 *Stakeholder Analysis and Policy Goals*

February 26 *Assessing Policy Options*

II A Taxonomy of Policy and Program Evaluation Frameworks

Benefit-Cost Approach—Financial Analysis

March 3 *The Project Cycle: Project Identification and Appraisal*

March 5 & 10 *Development of Financial Cash Flows for Project Appraisal*

March 12 *Discounting*

March 17 *Alternative Investment Criteria and Problems of Durability and Correction Procedures*

March 19 *Scale, Timing, and Interdependencies in a Project*

March 24 & 26 *No classes—Spring Break*

March 31 *Forecasting and The Treatment of Inflation*

April 2 & 7 *Risk Analysis*

Benefit-Cost Approach—Economic Analysis

- April 7 *Overview of Economic Analysis of Investment Decisions*
- April 9 *Measurement of Economic Benefits and Costs in undistorted markets*
- April 14 *Measurement of Economic Benefits and Costs in Distorted Markets*

Other Economic Approaches

- April 16 *Cost Effectiveness*
- April 21 *Holiday—Patriot’s Day*
- April 23 *Randomized Field Trial*
- April 28 *Econometric Analysis*

Political Economy Approaches

- April 30 *The Political Economy of Benefits and Costs Analysis*

Organizational Approaches

- May 5 *Network Approaches*
- May 7 *Understanding The Bureaucracy*

III Presentations of Class Projects

- May 12 *Project Presentations*
- May 14 *Project Presentations*

Reading Assignments

February 5 *Introduction and Course Overview*

(No reading assignments)

I Evolution of Policy and Project Evaluation

February 10 *Policy and Project Evaluation as a Discipline*

Hansen, Susan. 1983. Public Policy Analysis: Some Recent Developments and Current Problems. *Policy Studies Journal* 12, 1: 14–42.

Lindblom, Charles E. 1979. Still muddling, not yet through. *Public Administration review* 39, 6: 517- 26.

Suggested readings:

Lindblom, Charles. 1959. The science of muddling through. *Public Administration review* 19, 2: 79-88.

Rossi, Peter Henry, Mark W. Lipsey, and Howard E. Freeman. 2001. *Evaluation: A Systematic Approach*. London, U.K.: Sage Publications, Inc.

February 12 *Policy and Project Evaluation in Urban Planning*

Talen, Emily. 1996. Do Plans Get Implemented? A Review of Evaluation in Planning. *Journal of Planning Literature* 10: 248-259.

Oliveira, Vitor, and Paulo Pinho. 2010. Evaluation in Urban Planning: Advances and Prospects. *Journal of Planning Literature* 24: 343-361.

Suggested readings:

Carruthers, John I. 2002. The Impacts of State Growth Management Programmes: A Comparative Analysis. *Urban Studies* 39, 11: 1959–1982.

Ingram, Gregory K. Ingram, Armando Carbonell, Yu-Hung Hong, and Anthony Flint. 2009. *Smart Growth Policies: An Evaluation of Program and Outcomes*. Cambridge, MA: Lincoln Institute of Land Policy.

February 17 *Holiday—President’s Day*

II Why Do We Undertake The Project, and For Whom?

February 18 & 19 *Framing Policy Issues*

Required readings:

Chong, Dennis, and James N. Druckman. 2007. Framing Theory. *Annual Review of Political Science* 10: 103-126.

Head, Brian W. 2008. Three Lenses of Evidence-Based Policy. *Australian Journal of Public Administration* 67, 1: 1-11.

Suggested Readings

Daviter, Falk. Policy Framing in The European Union. *Journal of European Public Policy* 14, 4: 654-666.

George M. Guess and Paul G. Farnham. 2011. Fighting Crime: The Case for Empty Prisons. *Cases in Public Policy Analysis*. Third Edition. Washington, D.C.: Georgetown University Press, 54-57.

February 24 *Stakeholder Analysis and Policy Goals*

Required Readings:

Weible, Christopher M. 2007. An Advocacy Coalition Framework Approach to Stakeholder Analysis: Understanding the Political Context of California Marine Protected Area Policy. *Journal of Public Administration, Research and Theory* 17, 1: 95-117.

Chapleo, C. and Simms, C. 2010. Stakeholder Identification and Prioritisation in the Higher Education Sector: A Case Study of the University of Portsmouth. *Perspectives: Policy and Practice in Higher Education* 14,1: 12-20.

Suggested Reading:

Kahan, James P. 2001. Focus Group as a Tool for Policy Analysis. *Analysis of Social Issues and Public Policy* 2001: 129-146.

Taylor-Nanista, Sarah. 2005. Finding a Safe Space: Prioritizing Safety Considerations for Trans Youth in the Portland Homeless Youth Continuum. Center on Women and Public Policy Case Study Program, Humphrey Institute of Public Affairs, University of Minnesota.

February 26 *Assessing Policy Options*

Levin, Kelly, and Brian Petersen. 2011. Tradeoffs in the Policy Process in Advancing Climate Change Adaptation: The Case of Australia's Great Eastern Ranges Initiative. *Journal of Natural Resources Policy Research* 3, 2: 145–162.

Sarewitz, Daniel, and Roger Pielke Jr. 1999. Prediction in Science and Policy. *Technology in Society* 21 (1999) 121–133.

Suggested Readings:

Sims, Christopher. 1986. Are Forecasting Models Usable for Policy Analysis? *Quarterly Review* Winter: 2-16.

Choumert, Johanna, and Julien Salanie. 2008. Provision of Urban Green Spaces: Some Insights from Economics. *Landscape Research*, 33, 3, 331–345.

U. S. Department of Transportation, Federal Highway Administration. 2011. Case Study: Albany, New York. *Toobox for Regional Policy Analysis*. http://www.fhwa.dot.gov/planning/toolbox/albany_overview.htm

II A Taxonomy of Policy and Program Evaluation Frameworks

BENEFIT-COST APPROACH—FINANCIAL ANALYSIS

March 3 *The Project Cycle: Project Identification and Appraisal*

Jenkins G. P, C. Y. K Kuo and A.C. Harberger. 2011. *Cost-Benefit Analysis for Investment Decisions* (2011 Manuscript), chs. 1 & 2.

March 5 & 10 *Development of Financial Cash Flows for Project Appraisal*

Jenkins G. P, C. Y. K Kuo and A.C. Harberger. 2011. The Financial Appraisal of Projects. *Cost-Benefit Analysis for Investment Decisions* (2011 Manuscript), ch. 3.

March 12 *Discounting*

Jenkins G. P, C. Y. K Kuo and A.C. Harberger. 2011. Discounting and Alternative Investment Criteria. *Cost-Benefit Analysis for Investment Decisions* (2011 Manuscript), ch. 4.

March 17 *Alternative Investment Criteria and Problems of Durability and Correction Procedures*

Jenkins G. P, C. Y. K Kuo and A.C. Harberger. 2011. Discounting and Alternative Investment Criteria. *Cost-Benefit Analysis for Investment Decisions* (2011 Manuscript), ch. 4.

March 19 *Scale, Timing, and Interdependencies in a Project*

Jenkins G. P, C. Y. K Kuo and A.C. Harberger. 2011. Scale, Timing, Length, and Inter-Dependencies in Project Selection. *Cost-Benefit Analysis for Investment Decisions* (2011 Manuscript), ch. 5.

March 24 & 26 *No classes—Spring Break*

March 31 *Forecasting and the Treatment of Inflation*

April 2 & 7 *Risk Analysis*

Jenkins G. P, C. Y. K Kuo and A.C. Harberger. 2011. Dealing With Uncertainty and Risk in Project Appraisal. *Cost-Benefit Analysis for Investment Decisions* (2011 Manuscript), ch. 6.

COST-BENEFIT APPROACH—ECONOMIC ANALYSIS

April 7 *Overview of Economic Analysis of Investment Decisions*

Jenkins G. P, C. Y. K Kuo and A.C. Harberger. 2011. Principles Underlying The Economic Analysis of Projects. *Cost-Benefit Analysis for Investment Decisions* (2011 Manuscript), ch. 7.

April 9 *Measurement of Economic Benefits and Costs in undistorted markets*

Jenkins G. P, C. Y. K Kuo and A.C. Harberger. 2011. The Economic Opportunity Cost of Capital. *Cost-Benefit Analysis for Investment Decisions* (2011 Manuscript), chs. 8. \$ 10

April 14 *Measurement of Economic Benefits and Costs in Distorted Markets*

Jenkins G. P, C. Y. K Kuo and A.C. Harberger. 2011. The Economic Opportunity Cost of Capital. *Cost-Benefit Analysis for Investment Decisions* (2011 Manuscript), ch. 9 & 11.

OTHER ECONOMIC APPROACHES

April 16 *Cost Effectiveness*

Jenkins G. P, C. Y. K Kuo and A.C. Harberger. 2011. The Economic Opportunity Cost of Capital. *Cost-Benefit Analysis for Investment Decisions* (2011 Manuscript), ch. 15.

April 21 *Holiday—Patriot’s Day*

April 23 *Randomized Field Trial*

Burtless, Gary. 1995. The Case for Randomized Field Trials in Economic and Policy Research. *Journal of Economic Perspectives* 9, 2, Spring: 63-84.

Duflo, E., and M. Kremer. 2005. Use of Randomization in the Evaluation of Development Effectiveness. *Evaluating Development Effectiveness*. George Pitman, Osvaldo Feinstein and Gregory Ingram, eds. New Brunswick, New Jersey and London, U.K.: Transaction Publishers, 205-232.

Suggested readings:

Duflo, Esther. 2004. Scaling Up and Evaluation. *Annual Bank Conference in Development Economics Conference Proceedings*. Washington, D.C.: The World Bank.

Ravallion, Martin. 2008. Evaluating Anti-Poverty Programs in *Handbook of Development Economics*, T. Paul Schultz and John Strauss, eds, Amsterdam, The Netherlands: Elsevier, Chapter 59.

Vedung, Evert. 1997. Models of Evaluation. *Public Policy and Program Evaluation*. New Brunswick, New Jersey: Transaction Publishers, chapter 4.

April 28 *Econometric Analysis*

Heckman, James J. 2001. Micro Data, Heterogeneity, and the Evaluation of Public Policy: Nobel Lecture. *Journal of Political Economy* 109, 4: 673-748.

Imbens, Guido W., and Jeffrey M. Wooldridge. 2009. Recent Developments in the Econometrics of Program Evaluation. *Journal of Economic Literature* 47,1: 5–86.

Suggested readings:

Lucas, Robert E. Jr. 1976. Econometric Policy Evaluation: A Critique. Carnegie-Rochester conference series on public policy.

Dehejia, Rajeev H. 2005. Program Evaluation as a Decision Problem. *Journal of Econometrics* 125: 141–173.

POLITICAL ECONOMY APPROACHES

April 30 ***The Political Economy of Benefits and Costs Analysis***

Rondinelli, Dennis A., James S. McCullough, and Ronald W. Johnson. 1989. Analysing Decentralization Policies in Developing Countries: A Political-Economy Framework. *Development and Change* 20, 1: 57-87.

Weingast, Barry R., Kenneth A. Shepsle, and Christopher Johnsen. 1981. The Political Economy of Benefits and Costs: A Neoclassical Approach to Distributive Politics. *Journal of Political Economy* 89, 4: 642-664.

Suggested Readings:

Musgrave, Richard Abel. 1939. The Voluntary Exchange Theory of Public Economy. *The Quarterly Journal of Economics* 53, 2: 213-237.

Ostrom, Vincent, and Elinor Ostrom. 1971. Public Choice: A Different Approach to the Study of Public Administration. *Public Administration Review* 31, 2: 203-216.

Persson, Torsten, and Guido Tabellini. 2000. Political Economics: Explaining Economic Policy. Cambridge, MA: The MIT Press.

Sen, Amartya. 1992. The Political Economy of Targeting. World Bank Conference on Public Expenditures and the Poor. Washington, DC: World Bank.

ORGANIZATIONAL APPROACHES

May 5 ***Network Approaches***

Sanyal, Bishwapriya. 1991. Antagonistic Cooperation: A Case Study of Nongovernmental Organizations, Government and Donors' Relationships in

Income-Generating Projects in Bangladesh. *World Development* 19 (III): 1367-1379.

Tendler, Judith and Sara Freedheim. 1994. Trust in a Rent-seeking World: Health and Government Transformed in Northeast Brazil. *World Development*, 22 (12): 1771-1791.

Suggested readings:

Atkinson, M. M. and Coleman, W. D. (1992), Policy Networks, Policy Communities and the Problems of Governance. *Governance* 5: 154–180.

Kruks-Wisner, G. 2011. Seeking the Local State: Gender, Caste, and the Pursuit of Public Services in Post-Tsunami India, *World Development*.

Provan, Keith G. and H. Brinton Milward. 2001. Do Networks Really Work? A Framework for Evaluating Public-Sector Organizational Networks. *Public Administration Review* 61, 4: 414-423.

May 7 ***Understanding Bureaucracy***

March, James. 1994. *A Primer on Decisionmaking: How Decisions Happen*. New York: The Free Press.

Sanderson, Ian. 2002. Evaluation, Policy Learning and Evidence-Based Policy Making. *Public Administration*, 80, 1: 1-22.

Suggested readings:

Lipsky, Michael. 1980. *Street Level Bureaucracy, Dilemmas of the Individual in Public Services*. New York: Russell Sage Foundation.

Wilson, James Q. 1989. *Bureaucracy: What Government Agencies Do and Why They Do It*. Basic Books: Harper Collins Publishers.

III Presentations of Class Projects

May 12 ***Project Presentations***

May 14 ***Project Presentations***