PROJECT EVALUATION (ECN 312)

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Unit One: Government Intervention in Public Goods

- Government intervention in public goods refers to the action taken by the government to provide, manage or regulate goods and services that are non-excludable and non rivalrous.

Forms of Government Intervention

- Provision of Public Goods i.e. Schools and Hospital
- Subsidies – Government can provides financial support to private entities to encourage the production of public goods
- Regulation – government sets rules and standard to ensure that public goods are maintained and protected.
- Taxation – Government collects taxes to fund the provision and maintenance of public goods.
- Public-Private Partnership.

INTERVENTION IN PUBLIC PROJECTS

- Redistributing income and wealth
- Providing public goods
- Promoting fair competition
- Protecting people
- Preserving the environment
- Achieving macroeconomic goals
- Changing consumer behavior i.e reducing the impact of negative externalities.
- Securing and spurring the domestic economy

Unit Two: FEASIBILITY STUDY

- A feasibility study is a report that aims to determine the practicality, strengths and weaknesses of a proposed project, existing system or corporation as a whole.
- It demonstrate the benefits received in return for taking the risk of investing in the idea.

PURPOSE OF CONDUCTING FEASIBILITY STUDY

- Provide a preliminary analysis to eliminate business scenarios that are not in tune with the organization’s motives.
- Project an idea of revenue and expenses that the plan might require in the future.
- Point out factors that make the business idea vulnerable and the short-term and long-term steps to correct it.
- By analyzing the above factors, one can categorize business ideas into feasible and non-feasible

TYPES OF FEASIBILITY STUDY

- Technical Feasibility
- Financial feasibility
- Market feasibility
- Organizational feasibility

Technical Feasibility

- Technical feasibility refers to the assessment of whether a proposed project or solution can be successfully implemented using the available technology and technical resources.
- This evaluation focuses on determining if the necessary technical skills, equipment, software, and infrastructure are available and adequate to achieve the project's objectives

Financial Feasibility

- This allow an organization to determine cost-benefit analysis of the project.
- It evaluate the financial viability, projected revenue and profitability.
- It determine the return on investment (ROI) and the financial risks involved.

Market feasibility

- This has to do with preparation for sales projection.
- It assesses the market potential for the project
- It determine the marketing strategy and sales potential
- It help to evaluate the size of the market, customer needs and market trends.

Organization feasibility

- This focus on the organization structure including the legal system, management team competency
- This ensures that the project complies with all relevant laws, regulation and legal requirements.
- It also consider zoning laws, environment regulations and other legal constraints.

Unit Three: WELFARE ECONOMICS

- Welfare economics is a branch of economics that focuses on the well-being of individuals within an economy.
- It focuses on efficient allocation of resources, goods and how this affect social welfare.
- Welfare economic focuses on goods or welfare that is being achieved at a current state and how it is being distributed
- Welfare economics emphasize that allocation of resources is efficient or optimum when social welfare is at maximum

Concept of Social Welfare

- Social welfare refers to government programs and policies designed to support and improve the living conditions of the population, particularly the vulnerable and disadvantaged

Key aspect of Social Welfare

- Provision of Basic Needs
- Income Support and Poverty Alleviation
- Social Services
- Employment and training Programs
- Social Insurance
- Public Health and Safety
- Equity and Social Justice
- Community Development

Criteria of Social Welfare

- Growth of GNP as A Criterion of Welfare
- Bentham's Criterion
- A Cardinalist Criterion
- The Pareto-Optimality Criterion
- The Kaldor-Hicks 'compensation criterion

Growth of GNP as A Criterion of Welfare

- The Growth of Gross National Product (GNP) is used as a criterion of social welfare because it provides a broad measure of a country's economic activity and can reflect the overall economic health of a nation.

Strength and Limitation

Strenght	Limitation
• Provides a clear, quantifiable measure of economic activity and growth • Helps policymakers in assessing economic policies and making informed decisions to stimulate growth.	• Does not account for the distribution of income and wealth amDoes not consider negative externalities such as pollution, which can diminish overall welfare.ong the population

Bentham's Criterion

- Bentham's criterion for social welfare is based on the utilitarian principle of maximizing overall happiness and minimizing suffering.
- $W = UA + UB + UC$
- According to Bentham $\Delta W > 0$ if $(\Delta UA + \Delta UB + \Delta UC) > 0$

Strenght and Limitation

Strenght	Limitation
• Directly aims to maximize societal happiness and well-being. • Considers the welfare of all individuals, promoting policies that seek the greatest good for the greatest number.	• Happiness and utility are subjective and difficult to measure accurately. • May neglect the welfare of minorities if their happiness does not significantly impact the total utility.

The Cardinalist Criterion

- The Cardinalist Criterion for social welfare is an approach that seeks to measure and aggregate individual utilities in numerical terms to assess and maximize overall social welfare

Strenght and Limitation

Strenght	Limitation
• Provides a way to measure and compare individual utilities numerically • Facilitates the evaluation of policies by examining changes in measurable utilities.	• Utility is inherently subjective and difficult to quantify accurately. • Assumes that utilities can be compared across individuals, which can be contentious.

The Pareto-Optimality Criterion

- This criterion refers to economic efficiency which can be objectively measured
- It state that any change that makes at least one individual better-off and no one worse-off is an improvement in social welfare
- Also, a change that makes no one better-off and at least one worse-off is a decrease in social welfare

Strenght and Limitation

Strenght	Limitation
• Emphasizes economic efficiency and resource allocation. • Ensures that any improvement in welfare does not come at the expense of others, fostering mutually beneficial outcomes	• Ignores the distribution of resources and welfare among individuals. A situation can be Pareto optimal but highly unequal • Does not account for long-term welfare effects and dynamic changes in the economy.

The Kaldor-Hicks ‘compensation criterion’

- Kaldor-Hicks ‘compensation criterion’ states that a change constitutes an improvement in social welfare if those who benefit from it could compensate those who are hurt, and still be left with some ‘net gain’

Strenght and Limitation

Strenght	Limitation
• Unlike Pareto efficiency, which requires no one to be worse off, Kaldor-Hicks allows for a more flexible assessment of policies and projects that may have both winners and losers.	• Policies that could theoretically compensate losers but do not actually do so can be seen as unfair or unjust.

Unit Four: RISK AND UNCERTAINTY IN PROJECT MANAGEMENT

- Risk is an uncertain event or condition that, if it occurs, has a positive or negative effect on project objectives. A risk has a cause, and if it occurs, a consequence
- Risk means possible unfavorable outcomes
- A risk is concerned with unpredictable events that might occur in the future whose exact likelihood and outcome is uncertain but could potentially affect their interests/objectives in some way.

- A risk source is, therefore, an underlying state of affairs; a risk event is an event that can happen given that underlying state of affairs
- Risk is an uncertain event or condition that, if it occurs, has a positive or negative effect on a project objective

Characteristics of Risks

- Risks are occurrence or event based
- Risks are quantifiable; often with estimable probabilities of occurrence
- Risks are the consequences of uncertainty
- Risks are socially constructed
- Risks have an impact on the project if they occur

Defining Uncertainty

- Uncertainty is a simple lack of certainty.
- Uncertainty is the sum of the unknown and unknowable aspects of the project, the consequences of which may threaten the achievement of one or more project goals.
- It is the intangible measure of what is not known about the project.
- Uncertainty is understood in its most basic form as not knowing for sure, due to lack of information or ambiguous information.

Characteristics of Uncertainty

- **Uncertainty is a state of unknowing**
- **Uncertainty is a lack of information**

Unit Five: ECONOMIC AND SOCIAL APPRAISAL

- An economic analysis, also called a cost benefit analysis, is an extension of a financial analysis
- An economic analysis is employed mainly by governments and international agencies to determine whether or not particular projects or policies will improve a community's welfare and should therefore be supported.

Cost Benefit Analysis

- It also involve Cost benefit analysis enables the analyst to determine if a project will make a positive contribution to the welfare of a country
- An economic analysis is not, however, concerned about the welfare of foreigners.
- Government objectives fall broadly under the heading of optimization of community welfare when talking of CBA.

Why Government Embark on CBA

- The objectives may include preserving the environment, redistributing income to particular target groups or regions and enhancing national security.
- One of the major reasons that governments use cost benefit analysis is to determine the impact of various competing projects on community welfare
- The other major reason for the use of cost benefit analysis lies in many distortions and imperfections that affect prices in factor and goods markets

Role of Cost Benefit Analysis in Project Development, Evaluation And Implementation

- The techniques of financial and cost benefit analysis are employed in the six identifiable stages of project formulation and evaluation:
- Project Identification
- Pre-feasibility Study
- Feasibility Study
- Project Design
- Implementation
- Ex-post Evaluation

Steps In Preparing A Full Economic Evaluation

- Definition Objectives
- Identification Options
- Identification of Costs and Benefits-The With-Without Principle
- Valuation of Costs and Benefits
- The Opportunity Cost Principle
- Willingness-to-pay Principle

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