

# **An Islamic Review of the Mainstream Framework for Project Evaluation**

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## **Abstract**

There are several major issues pertaining to the mainstream framework that need reconsideration from the Islamic standpoint. Moreover, the mainstream framework has been developed over the years in isolation from Islamic input. In carrying out this study, the researcher has followed the descriptive method to illustrate the project evaluation framework in mainstream economics. The researcher has also applied both the inductive and deductive methods as well as the analytical method to thoroughly examine and analyze the literature of the Muslim scholars. This study has reconsidered the Islamic stance towards the main issues pertaining to the mainstream project evaluation framework.

Keywords: Project Evaluation

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## 1.0 PROJECT EVALUATION FRAMEWORK IN MAINSTREAM ECONOMICS

### 1.1 Definition of Project

In general, a project means a plan, a design or scheme for doing something and it is relatively new when the development practitioners and academics use the term to denote the investment or productive activity with the use of resources (Baum & Tolbert, 1985). A project can be defined as a proposal for future investment which aims to create, expand and/or develop specific facilities to increase the production of goods and/or services in a community or place within a determined period of time (Sang, 1995; UNIDO & IDCAS, 1980). Baum & Tolbert (1985) suggest the definition of a project as “*a discrete package of investments, policy measures, and institutional and other actions designed to achieve a specific development objective (or set of objectives) within a designated period*”.

A project often forms part of an economic or investment plan. An economic or investment plan may consist of a single project or projects that are strongly or weakly inter-related (Little & Mirrless, 1974). Investment decision-making includes the consideration for embarking on a new project (Palm & Qayum, 1985). Project evaluation then forms a fraction of the complete phases of a project (project cycle).

The further splitting-up of a project into several parts or units is possible for reasonable consideration. Each of those parts is can then be defined as a separate project. However, this requires that the sub-project can be analysed and evaluated technically, commercially and economically as an independent and separable unit of investment (Little & Mirrless, 1974; Sang, 1995; UNIDO & IDCAS, 1980). If two or more activities are theoretically separable but practically indivisible, they should be treated as one single subject for evaluation purposes (Palm & Qayum, 1985). An example of separable sub-projects in a project given by Muqorobin (1998) is the RM20 billion high-tech scheme of the Multimedia Supercorridor (MSC). The MSC project can be separated and evaluated into several separable independent projects such as the Kuala Lumpur International Airport (KLIA). This fact suggests that an enormous project may consist of several projects that can be evaluated separately at different levels.

### 1.2 Project Evaluation Definition and Function

Project *evaluation* or *analysis* or *appraisal*<sup>1</sup>, in the general sense, is basically an examination between a project's costs and benefits over its lifetime to determine the net worth of the project from the *commercial* and *national* point of view. In this sense, Sang (1995) defines project evaluation as “*a studied judgment on the balance of all the positive and negative effects of a project and its relative merits among the alternatives for*

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<sup>1</sup> These three terms are used in the literature to connote the same meaning. However, the use of a particular term may have some logical grounds as well as practical advantages (Sang, 1995).

*achieving government or private enterprise objectives*”<sup>2</sup>. It is an analysis of the project’s expected future events in order to determine the current attractiveness of the project (Palm & Qayum, 1985). There are several other closely related terms which are used interchangeably to denote this meaning of project evaluation such as cost-benefit analysis, cost-effectiveness analysis and capital budgeting. However, each of these terms may reveal a specific meaning.

Cost-benefit analysis<sup>3</sup> and cost-effectiveness analysis, in most situations, refer to the evaluation of public projects only. The former concerns the net result between the project’s quantifiable costs and benefits whilst the latter deals with the project’s non-quantifiable benefits in determining the least expensive project’s cost from its alternatives that would provide the targeted outcome. On the other hand, the term ‘capital budgeting’ is often used to denote project evaluation by private individuals concerning the sources and types of financing (Sang, 1995; Zarqa’, 1982).

Project evaluation is involved in three main situations where the decision is to accept or reject a single project; to choose one single project amongst a range of projects; or to decide on a certain number of projects within a range of proposed projects (Zarqa’, 1982) Hence, it does have several critical functions. They are (Sang, 1995):

- a) Provision of necessary information on a project.
- b) Establishment of an order of priority among competing projects.
- c) Assessment of the profitability of a project.
- d) Rationalisation of the allocation of resources among the various sectors and projects at the macroeconomic and microeconomic levels.

### **1.3 Project Evaluation vis-à-vis the Project Cycle**

The various stages of information gathering and decision making that take place between a project’s inception and completion are known by economists as the “project cycle” (Irvin, 1978). In other words, a project cycle refers to the step-by-step process by which a project is formulated, identified, evaluated, implemented and completed (World Bank, n.d.). These various stages are conveniently known as the ‘project cycle’ to denote that they are closely linked to each other and follow a logical progression (Baum & Tolbert, 1985). This concept of project cycle was first introduced by the World Bank in describing the working procedures of its financing in developing countries<sup>4</sup>. A slightly

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<sup>2</sup> His other definition of project evaluation is “*an assessment of the net benefit expected of a project in comparison with its alternatives for achieving national or private business goals*”. This definition is very similar to the first one.

<sup>3</sup> Cost-Benefit Analysis (CBA) is also known as Social Cost-Benefit Analysis (SCBA) as it attempts to consider all of the project’s pros and cons to the society as a whole (Boardman, Greenberg, Vining & Weimer, 2001).

<sup>4</sup> The project cycle as conceived by the World Bank comprises (1) identification, (2) preparation, (3) appraisal, (4) negotiations and board, (5) implementation and supervision, (6) implementation completion, (7) evaluation and lastly (8) country assistance strategies. See [www.worldbank.org](http://www.worldbank.org)

different framework concerning educational projects was suggested by UNESCO<sup>5</sup>. Different authors provide different detailed explanations of the stages a project should follow and each project has its own distinctiveness and no two projects are alike (Sang, 1995). Indeed, the divisions of the project cycle are somewhat artificial in practice but do illustrate the whole concept of a continuous decision-making task (Irvin, 1978).

However, there is a general evolutionary pattern amongst projects comprising several common stages (Sang, 1995). Muqorobin (1998) observes at least five major stages of a project cycle. It appears to the researcher that the sequence of stages of the project cycle as observed by him is the most explicable for summarising a typical project cycle<sup>6</sup>. The sequence of the project cycle is as follows:

1. Project Formulation
2. Feasibility Study
3. Investment Decision
4. Implementation
5. *Ex-post* Evaluation

### **1.3.1 Project Formulation**

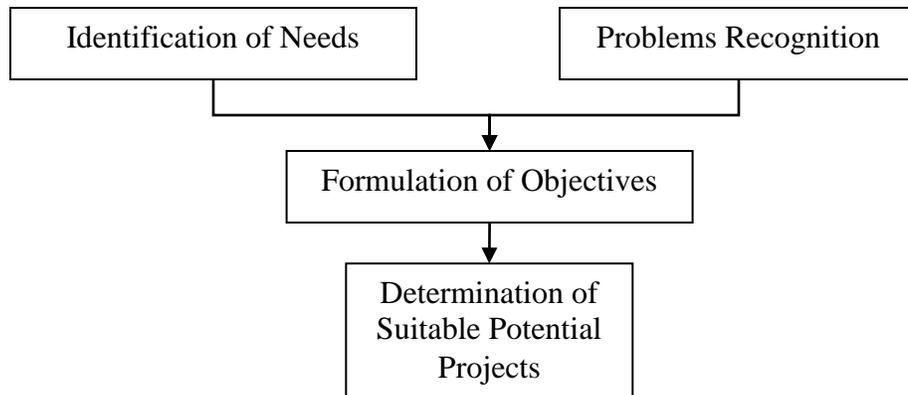
At this stage, there are three main steps that should take place. The first step is the identification of needs and problem recognition. This will entail the second step i.e., the formulation of objectives that projects should aim at. The third one is the identification of suitable projects whose desirability and suitability should conform to the established objectives. In this sense, projects are actually designed to solve specific problems and/or to meet the particular needs of a society, a country or an individual (Sang, 1995). These steps can be depicted by Figure 1.

**Figure 1: Steps Involved at the Project Formulation Stage**

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<sup>5</sup> UNESCO's suggestion is as follows: (1) evaluation of a system's performance and needs; (2) formulation of program objectives and project goals; (3) design of alternative projects; (4) pilot project and experimentation; (5) project implementation; (6) project operation; and (7) outcome evaluation.

<sup>6</sup> His suggestions for this project cycle are mostly excerpted from the works of George Irvin (1978), Baum & Tolbert (1985), Axel Sell (1991) and Heng-Keng Sang (1995).



### 1.3.2 Feasibility Study

After the potential projects have been recognised, a feasibility study for each of them will be carried out. A feasibility study can be defined as the examination of the viability of the proposed projects in an exhaustive and comprehensive investigation to resolve the most sound project (s) in terms of the technical, financial, economic and social aspects (Sang, 1995). A typical feasibility study of a project includes quantitative and qualitative analysis considering the direct and indirect effects in comparison to other alternatives, if any. This stage can be divided into the *pre-feasibility study* and the *detailed feasibility study* (Irvin, 1978; Muqorobin, 1998). The former differs essentially from the latter as it requires less workload and a more simple analysis (Irvin, 1978). The pre-feasibility study provides the basis for choosing one project or a small number of alternative projects for a more detailed feasibility study (Sang, 1995). The result of the pre-feasibility study is less accurate in nature than the detailed one. However, this is justifiable as a detailed feasibility study on all proposed projects will cost a lot in terms of everything, and yet would find them to be unacceptable. Therefore, if the results of the pre-feasibility studies are promising, then, a more detailed feasibility study should be undertaken (Zarqa', 1994).

A good feasibility study will provide answers on the project's conformity with the objectives and priorities of a country, demand for the output of the project, its technical and environmental soundness, economic and financial profitability, administrative workability, and its compatibility with the customs and traditions of the beneficiaries (Baum & Tolbert, 1985). In reality, the scope and duration of feasibility studies can differ as widely as the projects themselves. UNIDO (1978) identifies nine critical aspects of a feasibility study. The financial and economic evaluation of an industrial project takes place at the end of a feasibility study. The nine aspects are as follows:

1. Project background and history
2. Market and plant capacity
3. Materials and input
4. Location and site

5. Project engineering
6. Plant organisation and overhead costs
7. Manpower
8. Implementation scheduling
9. Financial and economic evaluation

Irvin (1978) and Sell (1991) envisage the feasibility studies as having three different sections, namely techno-economic, financial and economic analyses. On the other hand, Sang (1995) enumerates the essential parts of a typical feasibility study in the following points:

1. A general description of the project including the background, salient features, configuration, and social and economic environment of the project.
2. A cost-benefit analysis of the project and its overall feasibility.
3. The formulation of the project's plans and design for implementation.
4. Financial plans and projections.

Project evaluation - as explained in most of the literature under this study – constitutes a part of the feasibility study of a project (Irvin, 1978; Muqorobin, 1998). It refers to the analysis of the soundness and benefits of the projects in comparison with other competing alternatives to attain commercial and national (social and economic) objectives (Sang, 1995). However, it is observed that financial and economic evaluations of projects are the two major aspects that have been emphasised and discussed in most of the literature pertaining to project evaluation.

### **1.3.3 Investment Decision**

With the results of the feasibility study, the decision-makers - not the analysts - make decisions based on certain investment criteria that are important to them. The decision-makers could be local or international financial institutions, planning authorities, individual or institutional investors etc. Each of the decision makers has his own investment criteria and a project is acceptable if it can meet the respective criteria. If the decision makers are financial institutions, the project's financial viability, its liquidity and capital plan are of crucial importance. If they are planning authorities, the project's contribution to national development is their primary concern. The presentation of investment or project justifications according to the stipulations and requirements of the international investors is necessary to obtain their resources. And if the projects are privately or publicly owned, for the commercial activities, the commercial profitability is the major concern (Sang, 1995).

### **1.3.4 Implementation**

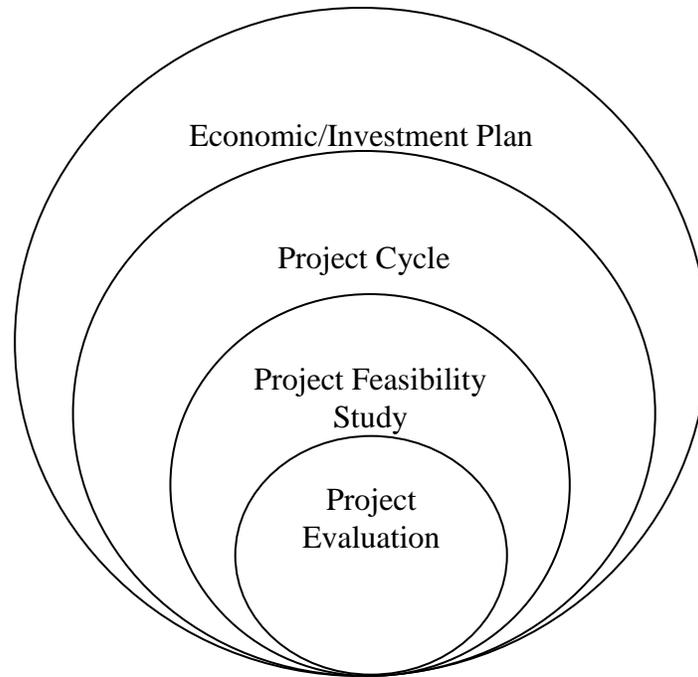
This stage is about making the project a reality. The earlier stages are directed toward the successful implementation of the project (Baum & Tolbert, 1985). At this stage, there are two things that constitute the main focus. The first one is the mobilisation of physical and financial resources. Secondly is the recruitment and training of personnel for the successful implementation and operation of the projects. Close monitoring and supervision to ensure the project's adherence to the plan are essential during this stage (Irvin, 1978; Sang, 1995).

### **1.3.5 Ex-Post Evaluation**

The *ex-ante* evaluation involves many forecasts and estimates of the project's viability. On the other hand, the *ex-post* evaluation of a project finds out its actual incomes and makes comparisons with anticipations in hindsight (Sang, 1995). An important purpose of this stage is to ascertain the reason for the project's success or failure, in order to pinpoint the pitfalls that should be avoided or the successful features that deserve replication in the future (Baum & Tolbert, 1985). This is an audit process to assess the extent of achievement or possible deviation from the objectives for which the project is undertaken. The result of *ex-post* evaluation would be the lessons learned from the experience of planning and implementation of the project (Sang, 1995). The *ex-post* evaluation also unveils the errors in forecast, measurement and evaluation during the pre-investment stages (Boardman, Greenberg, Vining & Weimer, 2001).

As a summary of the foregoing discussions, Figure 2 illustrates the position of project evaluation and its relationship with other relevant terms that have a broader meaning and scope.

**Figure 1: The Relationship between the Economic/Investment Plan, Project Cycle, Project Feasibility Study and Project Evaluation**



#### **1.4 Overview on the Major Developments of the Project Evaluation Framework in Mainstream Economics**

The practice of private project evaluation can be traced back to the early days of Capitalism where the profit motive was the emphasis of mainstream economics. The focus of analysis was on the microeconomics of a firm and the social significance of the private project was seldom raised. The role of government (and public projects) during those days was believed to be limited to the maintenance of law and order and the provision of certain public facilities and services. However, the situation has seen changes after two great events, namely the Great Depression and the Second World War. The emergence of welfare economics, the increased government involvement in the mobilisation of resources and socio-economic affairs, and the influence of Keynesian economics have provided bases and a theoretical background for the development of project evaluation foundations and techniques (Sang, 1995).

The development of social cost-benefit analysis (hereafter cited as SCBA) can be considered as the cornerstone of the project evaluation framework in mainstream economics, particularly for public projects. The earliest idea of comparison between projects' costs and benefits can be found in Benjamin Franklin's advice in 1772 for making personal decision where he named it as "*Moral or Prudential Algebra*" (Boardman *et al*, 2001; Sang, 1995). In 1808, Albert Gallatin - U.S. Secretary of the Treasury - recommended the comparison of costs and benefits in water-related projects (Hanley & Spash, 1993). However, the modern methods of SCBA are accredited to the work of Jules Dupuit, a French engineer, in his paper entitled "On the Measurement of the Utility of Public Works" in 1844 (Anand, 1993; Sang, 1995).

In terms of the practice of SCBA, it was first put into practice with the enunciation of the Flood Control Act 1936 in the USA. According to the Act, flood-control projects should be approved if the benefits to whomsoever they accrue are in excess of the estimated costs (Anand, 1993; Campen, 1986; Pearce, 1983; Sang, 1995). In 1950, the U.S. Federal Inter-Agency River Basin Committee issued a manual entitled “Proposed Practice for Economic Analysis of River Basin Projects” in an attempt to instill some agreed set of rules for comparing costs and benefits. The manual was later replaced by Budget Circular A-47 issued by the U.S. Bureau of Budget (Campen, 1986; Hanley & Spash, 1993; Pearce, 1983; Sang, 1995). In the 1950s, there was a number of significant writings<sup>7</sup> that further advanced the theory and practice of SCBA. The advent of development economics and the increase of project aid flows to the Third World countries within the same period aroused great interest in the application of SCBA in developing countries. During the 1960s, SCBA became increasingly accepted as the analytical tool for project evaluation. It is observed that the practice of SCBA made its first move in the USA, particularly in water-related projects, before being extended to Europe and the developing countries (Anand, 1993; Irvin, 1978; Sang, 1995).

With regard to the framework and methodologies of project evaluation, the international co-operation for development, particularly OECD, UNIDO and IDCAS have played a prominent role in this area. The OECD introduced its *Manual of Industrial Project Analysis in Developing Countries* in 1968. The OECD *Manual* was published in two volumes. The first volume is mainly concerned with project evaluation from a firm’s point of view. The second volume deals with the examination of projects from the social point of view i.e. SCBA (OECD, 1972)<sup>8</sup>. Then, in 1974, the same authors of the OECD *Manual* i.e., Little & Mirrlees, revised their previous approach and provided a more systematic exposition in a new book entitled “*Project Appraisal and Planning for Developing Countries*” (Anand, 1993; Sang, 1995).

On the other hand, UNIDO has also published two main works on project evaluation framework and methodologies. The first one was published in 1972 under the title *Guidelines for Project Evaluation*. The authors of the *Guidelines* were Dasgupta, Sen and Marglin. In 1975, Squire and van der Tak reconciled the differences between the OECD and UNIDO approaches. The OECD *Manual* and UNIDO *Guidelines* insist on the superiority of the national profitability of a project and the need for CBA. The second one by UNIDO was the *Manual for Evaluation of Industrial Projects*. The *Manual* was prepared in collaboration with IDCAS in 1980. The UNIDO & IDCAS *Manual* differs conceptually from the UNIDO *Guidelines*, OECD *Manual* and Little & Mirrlees (1974) in its simplicity and operational step-by-step approach. The UNIDO & IDCAS *Manual* suggests the use of net-value added criteria which judge the merits of a project based on its contribution to the national income (Anand, 1993; Sang, 1995; UNIDO & IDCAS, 1980). The works of the OECD (Little & Mirrlees), UNIDO and IDCAS are known as the “New Methodologies” of SCBA. In spite of several technical and methodological

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<sup>7</sup> Three highly important publications are the works of Otto Eclstein (*Water Resource Management*), John Krutilla and Eckstein (*Multiple Purpose River Development*), and Roland N. Mckean. All of their works were published in 1958 (Anand, 1993; Pearce, 1983; Sang, 1995).

<sup>8</sup> The revised edition of the *Manual* was published in 1972.

differences with the traditional SCBA, these “New Methodologies” have the same framework as the traditional one (Sang, 1995).

## **1.5 The Framework for Project Evaluation**

The structure (or approach) of project evaluation is somewhat different amongst the literature in mainstream economics. However, there are two aspects of a project’s profitability which have been the focus in the evaluation of projects. The first aspect is the project’s commercial profitability and the second one is the national profitability<sup>9</sup> of the project. Whilst the former is the main concern of individuals, the latter has been emphasised in public project evaluation. The two aspects of the project’s profitability mainly make up the objectives which a particular project is intended to satisfy<sup>10</sup>. Thus, the project evaluation framework necessarily examines the project’s contribution to the attaining of commercial and national objectives. The basic framework for project evaluation in mainstream economics<sup>11</sup> is depicted in Figure 3.

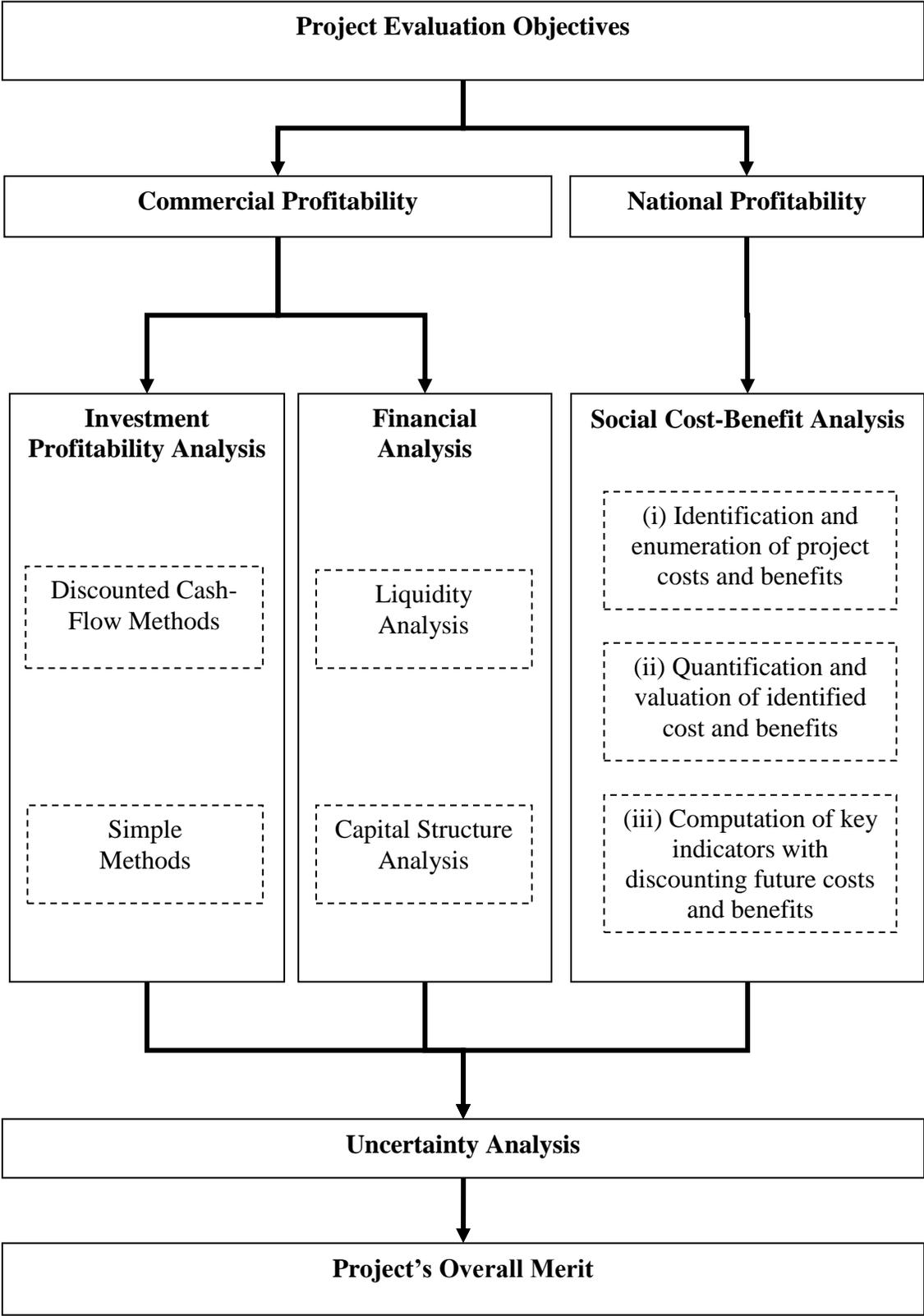
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<sup>9</sup> The national profitability basically represents the social profitability of the project. The net social gains may usefully be called national profits, when the society is identified with the nation. This should include the economic and non-economic costs and benefits of a project that would affect national or social welfare (UNIDO, 1972).

<sup>10</sup> Some authors suggest a more detailed division of project objectives. For example, Aḥmad (1999) gives four aspects of project objectives namely, economic, technological, social and political.

<sup>11</sup> The main references the researcher refers to in constructing this framework are: UNIDO & IDCAS (1980), UNIDO (1972) and Sang (1995).

Figure 2: The Framework for Project Evaluation in Mainstream Economics



### 1.5.1 Commercial Profitability

Commercial profitability analysis is concerned with the feasibility of the project from the financial point of view. At this stage, the project's costs and benefits are calculated in pecuniary terms at the prevailing market prices (UNIDO & IDCAS, 1980). The cash flow (inflows and outflows) estimation is the basis for the commercial profitability analysis. Thus, constructing relevant cash flows is of great importance to assure reliable results from the analysis (Sell, 1991). The commercial profitability analysis is composed of:

- a) *Investment Profitability Analysis*
- b) *Financial Analysis*

Each type of analysis deals with different aspects of the project. Hence, they are not complementary and not substitutable (UNIDO & IDCAS, 1980).

#### 1.5.1.1 Investment Profitability Analysis

*Investment profitability analysis* measures the return on the capital put into the projects regardless of the sources of the financing. In other words, it analyses the expected earning power of the resources committed to a project without taking into consideration the financial transactions which occur over the project's lifetime (UNIDO & IDCAS, 1980). The main methods for this analysis are divided into two groups:

- 1) *Discounted Cash-Flow Methods*
- 2) *Simple Methods*

*Discounted cash-flow methods* comprise the two most important and regularly used methods i.e. *Net Present Value* (NPV) and *Internal Rate of Return* (IRR). These two methods are classified under this category as they take into consideration the economic life of the project as a whole by discounting future cash inflows and outflows to their present values. The NPV method determines the divergence between the present values of a project's cash inflows and outflows. The cash flows are discounted by an appropriate discount rate to determine their present value (Sang, 1995; UNIDO & IDCAS, 1980).

The IRR, by definition, is the rate of discount that equates the present value of its cash inflows to the present value of its costs (Brigham & Houston, 2001). In another sense, it is the rate that equates the NPV of the project to zero (Levy & Alderson, 1988; Sang, 1955; UNIDO & IDCAS, 1980). The IRR is then being compared to the cut-off rate (or hurdle rate) that represents the minimum acceptable rate at which the capital invested should be compounded. The project is acceptable if the IRR is bigger than the cut-off rate. It seems that the IRR has a somewhat a "breakeven" feature that makes it really useful in project evaluation. This method is helpful if the project analysts find it difficult to attain the appropriate discount rate for calculating the NPV of the project (Brigham & Houston, 2001; UNIDO & IDCAS).

The *simple methods* consist of two simple and straightforward methods. The methods do not take into account the present value of the project's future cash flows or the whole life span of the project. They rely on one model period, usually one year. The methods are the *simple rate of return* and *payback period*. The *simple rate of return* is the ratio of the project's net profit to the total investment – both fixed and working capital (Sang, 1995; UNIDO & IDCAS, 1980). The *pay-back period* method calculates the expected number of years required to recover the original investment. The result of this method will then be compared to the cut-off payback period set by the decision-makers to decide on its acceptance or rejection (Brigham & Houston, 2001; Irvin, 1978).

### **1.5.1.2 Financial Analysis**

*Financial analysis* consists of *liquidity* and *capital structure analysis*. *Liquidity analysis* checks the possibilities of cash deficiency in the years of a project's life (Sang, 1995). It concerns the financial transactions affecting a project's cash balance which are not highlighted in the investment profitability analysis. It is done on a year-by-year basis and, hence, the cash flows are calculated at their nominal values (UNIDO & IDCAS, 1980).

The question of capital sufficiency is analysed in the *capital structure analysis*. It is performed to ensure that each type of investment (fixed or working capital) is covered by a suitable type of finance. The most commonly used as the indicator of an enterprise's capital structure is the *debt equity ratio*. It is simply the ratio of long-term loans to equity capital. There is no specific favourable debt equity ratio. It depends upon the earnings of the project, the nature of the enterprise and the uncertainties of the future. However, a low debt equity ratio reflects a lower risk of solvency or heavy financial obligations and vice-versa (Sang, 1995; UNIDO & IDCAS, 1980).

### **1.5.2 National Profitability**

The *national profitability analysis* is seen necessary due to several limitations of commercial profitability analysis. For example, the use of market price in commercial profitability analysis could be misleading and it is not a good guide to social gains. Additionally, a project may have effects outside the market which have not been treated in commercial profitability analysis (UNIDO, 1972). Thus, international agencies such as UNIDO, the OECD and the World Bank have repeatedly emphasised the need for SCBA, particularly for public projects, in their various publications to account for the national profitability of a project (Anand, 1993). The methodology of SCBA, its conceptual foundations, valuation and measurement issues are massive topics and they are not within the scope of the study. However, the researcher describes here its main framework. The framework of SCBA is worthy of explanation as “*various techniques have been developed for project studies within the framework of cost-benefit analysis*” (Sang, 1995).

### 1.5.2.1 Social Cost-Benefit Analysis

The basic framework of SCBA can be summarised in the following points (Sang, 1995; Boardman *et al*, 2001):

**1) Identification and enumeration of project costs and benefits**

The relevant costs and benefits are defined by type, region, recipient or other criteria. This includes the effects of the project in the realm of production and distribution, positive and negative, direct and indirect, internal and external, measurable and immeasurable effects.

**2) Quantification and valuation of identified costs and benefits**

In order to determine precisely the net balance between the project's costs and benefits, the individual items have to be quantified and valued. The project analysts should quantify as many items as possible and attach a value or a degree of significance to each of the remaining items so that the overall merit or demerit of the project can be determined.

**3) Computation of key indicators with discounting future costs and benefits**

Selected indicators are computed on the basis of available data and valuations. The most commonly applied indicators for public project are the NPV and IRR. Next, these indicators will undergo uncertainty analysis and then, the advantages and disadvantages of the project are weighed against each other to arrive at the project's overall merit.

### 1.5.3 Uncertainty Analysis

The previous stages of the framework are carried out under the assumption of certainty of the future. In reality, there is always uncertainty about the future, and with uncertainty, there is likely a conflict between what is theoretically correct and practically feasible (Bierman & Smidt, 1993). The outcome of the project may turn out to be slightly or considerably different from the initial expectations. Managers in a firm might tend to be optimistic in their forecasts as they have to compete for internally rationed funds (Meera, n.d.). Unfortunately, reality seems to prove that an underestimation of cost is more usual than vice-versa. In other words, it is always the case that the analysts seem to overestimate the benefit and the potential danger is underestimated (Sell, 1991).

Therefore, it is obvious that the uncertainty analysis is indispensable and it has been discussed, in short or great detail, by almost all the literature pertaining to project evaluation. Each variable needed for uncertainty analysis could be a source of uncertainty that affects the outcome of the project. Some of the common variables are the size of investment, operating costs and sales revenue - cash flow estimation (UNIDO & IDCAS,

1980). The uncertainties might also be caused by inadequate data, insufficient money and time and poor performance by the project analysts. Uncertainties are either internal or external. Internal uncertainties are related to the project itself that constitute the elements and structure of the project. On the other hand, external uncertainties relate to the surrounding environment of the project in which it operates such as political, social and economic changes during the lifetime of project<sup>12</sup> (Sang, 1995; UNIDO & IDCAS, 1980).

There are several methods for project analysts to carry out uncertainty analysis. The simplest one is the *break-even analysis*. A more systematic approach for uncertainty analysis is the *sensitivity analysis*. *Sensitivity analysis* shows how the value of the crucial indicators (the NPV, IRR or any other criteria) changes with a given change in an input variable, sometimes more than one variable, with other things held constant. This technique is used to determine how sensitive the results of project evaluation would be in relation to changes in crucial variables or key parameters. Where there are great uncertainties in the future or each variable has a significant chance of occurrence, *probability analysis* is recommended. This method identifies the possible range of each key variable, if not all, and does not restrict the judgment to a single optimistic, pessimistic or realistic estimation (Brigham & Houston, 2001; UNIDO & IDCAS, 1980).

#### **1.5.4 Project's Overall Merit**

Based on the uncertainty analysis results, the project's overall attractiveness from the commercial and national points of view is presented. This framework for project evaluation is basically a quantitative analysis of a project to arrive at the present attractiveness of the project. The analytical quantitative methods and criteria described here are not exhaustive; rather it is a list of main examples for each stage of the analysis. The choice of methods and criteria depends on the objectives of project evaluation, the decision makers, the economic environment, and the availability of relevant data (Sang, 1995; UNIDO & IDCAS, 1980).

## **2.0 REVIEW OF THE FRAMEWORK: ISLAMIC POINT OF VIEW**

Credit and recognitions should be given to mainstream economics for its contributions to the birth and development of the existing framework for project evaluation that takes into consideration the national or social interest, especially in SCBA. Nevertheless, the framework and methodology have been developed in isolation from Islamic input during the last one and half centuries. Consequently, there is a need to review the existing framework and methodology for project evaluation from the Islamic point of view.

Having presented the project concept and the framework for project evaluation in mainstream economics, we now turn to the second part of Chapter two: Review of the principles of project evaluation framework from the Islamic point of view. This section

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<sup>12</sup> Some examples of external uncertainties are (1) civil wars might occur; (2) national economy falls into recession; (3) governments change their policies and priorities; and (4) new laws are imposed.

starts with the *raison d'être* for conducting *ex-ante* project evaluation from the Islamic point of view. Following that is the discussion on the main selected issues pertaining to the framework for project evaluation from the Islamic standpoint. The focus of the researcher in this review is on the principles of the mainstream framework and not on methodological and technical matters. The methodological and technical issues of project evaluation are not within the scope of the present study.

## 2.1 The Raison D'être for Ex-ante Project Evaluation from the Islamic Standpoint

A project is a way of using resources, and the decision to undertake a particular project or not is a choice between alternative ways of using resources (Sugden & Williams, 1978). Resources, in Islam, are envisaged as trusts of Allah. Man, as His vicegerent and servant, is entrusted to utilise these resources in the right way within the *Sharī'ah* boundaries (Haneef, 1997). Appraisal of a project prior to its execution in order to determine the optimal use of the resources is in line with the spirit of Islam as manifested in the following points:

- a) Project evaluation is about rationalising the use of resources for specific purposes. Likewise, Islam calls on its followers to rationalise the use of resources. The irrational and unjustified use of resources is highly condemned in Islam as evident in a *ḥadīth* narrated by *Aḥmad* and *al-Nasā'ī* where a bird which was killed for no useful purpose will claim to Allah in the hereafter and say: “*Oh God! This man has killed me for no purpose and not for any benefit*” (Al-Maṣrī, 1999; Al-Qarḍāwī, 1999).
- b) Islam also favours efficiency and in this context, encourages *ex-ante* evaluation of a project before it could be undertaken to achieve its goal of prevention of *isrāf* - wanton use of resources, either in production or consumption (Choudhury & Malik, 1992; Zarqa', 1983). It is crystal clear that the prevention of *isrāf* is a founding trait of Islamic economics. This is evident in the *Qur'ān*'s condemnation on *israf* (Muqtader, n.d.).
- c) Project evaluation also involves prioritisation of potential competing projects for limited resources. Likewise, the prioritisation of actions and deeds is embedded in Islam since the *Sharī'ah* assigns different weights/values to different actions and deeds. With the right status, each matter could be ordered and prioritised according to its importance and urgency from the viewpoint of the *Sharī'ah* (Al-Qarḍāwī, 2000). In a way, *fiqh* (Islamic Jurisprudence) itself is all about prioritisation as each matter (including projects) can be categorised into one of the main five values, namely obligatory (*wājib*), recommended (*mandūb*), permissible (*mubāḥ*), reprehensible (*makrūh*), and forbidden (*ḥarām*).

## 2.2 The Mainstream Framework for Project Evaluation: Review of the Main Issues from the Islamic Standpoint

In view of the vastness of the subject and the limitations of this study, the researcher has selected several main issues that are particularly significant in theory for reconsideration from the Islamic point of view. The major issues pertaining to the principles of the project evaluation framework in mainstream economics (as recognised by the researcher) and which will be discussed in this section can be itemised into four main points. They are:

1. The need to accommodate *Shari'ah* objectives
2. The principle of cost benefit analysis
3. The rationale for discounting project's cost and benefit
4. The notion of (commercial) profit maximisation for private project

### 2.2.1 The Need to Accommodate Shari'ah Objectives

A project is designed to achieve specific objectives. In the mainstream framework, the commercial and national profitability objectives cover the “dual dimension” of a project's overall objectives. An Islamic framework for project evaluation should classify and prioritise projects according to the extent of their contribution to the realisation of *Shari'ah* objectives. The *Shari'ah* aims at the welfare (*maṣlahah*) of people in this life and in the hereafter (Khan & Ghifari, 1992). *Maṣlahah* can be classified further into three categories. The three categories are ('Afar, 1992; Kamali, 1989; Zarqa', 1984):

- 1) *Darūriyyāt* (Necessities): These Necessities are defined as those activities and things that are essential to the preservation of the five foundations of individual and social life according to Islam i.e. Religion, Life, Mind, Offspring and Wealth. Their neglect leads to total disruption and chaos in life. Khan and Ghifari (1992) assert that one foundation i.e. freedom should be added to the list. They see freedom as the sixth element that should be promoted along with the five elements.
- 2) *Hājiyyāt* (Conveniences): This category comprises all activities and things that are not vital to the preservation of the five foundations, but are necessary to relieve or remove impediments and difficulties in life. Conveniences promote and supplement the Necessities and their neglect leads to hardship but not to the total disruption of normal life.
- 3) *Taḥsīmiyyāt* (Refinements): The Refinements refer to activities and things that go beyond the limits of Conveniences and whose realisation leads to the improvement and attainment of that which is desirable such as jewellery, innocent hobbies, politeness in behaviour and speech, Islamic etiquette in cleanliness, moderation or avoiding extravagance and etc. Going beyond Refinements into prodigality and

self-indulgence is perceived by Islam as a disutility for both individuals and society, and is strongly disapproved.

As a general rule, a project that falls under the category of Necessities should be preferred to that of Conveniences in an Islamic framework. Similarly, a project that is considered as a Convenience must be preferred to that of Refinements (Khan & Ghifari, 1992; Meera, n.d.). The significance of this concept of *maṣlaḥah* or *Shari‘ah* objectives in an Islamic framework for project evaluation will be further discussed in Chapter Three.

### 2.2.2 The Principle of Cost Benefit Analysis

The Flood Control Act 1936 in the USA, which is considered as the earliest application of SCBA, states that “...projects should be approved if the benefits to whomsoever they accrue are in excess of the estimated costs” (Anand, 1993; Campen, 1986; Pearce, 1983; Sang, 1995). The idea of comparing between cost and benefit to select the best project is not peculiar in Islam. A similar statement has been recorded hundreds years ago from Abū Yūsuf where he states that, “If its benefit (project of excavation of canal) is greater, then he (the decision-maker) would leave as it is (e.g. it should go ahead); and if its harm is greater, than he would order to demolish it (i.e. should abandon it),” (Meera & Ahsan, 1992).

There is evidence from the Holy *Qur’ān* of analysis between the cost and benefit of a matter. For example, the comparison between the advantage and disadvantage of wine before it is being strictly forbidden in verse 2:219<sup>13</sup>. In the end, the wine or any intoxicating liquid is forbidden in Islam as it contradicts one of the *Shari‘ah* objectives i.e. protection of the mind. Another example is the story of Mūsā and Khidr from 18:61 to 18:82. Khidr has shown Mūsā that he scuttled the boat, slew the young man and set up the wall on the point of falling down without asking for recompense as the benefits of doing those things are greater than their evils (Al-Qarḍāwī, 2000).

Cost and benefit, in Islam, are generally denoted as *mafsadah* and *maṣlaḥah* respectively<sup>14</sup> (Muqorobin, 1998). Analysis between cost and benefit is thought necessary as all *maṣāliḥ* (plural of *maṣlaḥah*) and *mafāsīd* (plural of *mafsadah*) are not equal. Some are more important than others and some are less important (Khan & Ghifari, 1992). Al-Qarḍāwī (2000) mentioned three situations where the analysis of *maṣlaḥah* and *mafsadah* could take place. The situations are:

- a) Analysis between *maṣāliḥ*, one to another
- b) Analysis between *mafāsīd*, one to another
- c) Analysis between *maṣāliḥ* and *mafāsīd*

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<sup>13</sup> “They ask thee concerning wine and gambling. Say: In them is great sin, and some profit, for men; but the sin is greater than profit.”

<sup>14</sup> However, a cost does not necessarily stand for *mafsadah* in the context of project evaluation.

When there are trade-offs between the *maṣāliḥ*, we choose the greater *maṣlaḥah* over the lower one, public *maṣlaḥah* over the private one<sup>15</sup>, permanent *maṣlaḥah* over the temporary one, actual *maṣlaḥah* over the potential one and so forth. In the second situation, the principle of choosing the lesser evil would be applied. And as there are contradictions between *maṣlaḥah* and *mafsadah*, they should be evaluated against each other to find the final resolution (Al-Qarḏāwī, 2000). It is evident that cost-benefit analysis is indispensable in an Islamic framework for project evaluation and the application of SCBA, in principle, is in line with the spirit of Islam.

### 2.2.3 The Rationale for Discounting Project's Cost and Benefit

Discounting<sup>16</sup> a project's benefit and cost is essential in both commercial and national profitability analyses in the mainstream framework. The two most regularly used and superior methods in investment profitability analysis i.e. the NPV and IRR are based on this technique<sup>17</sup>. In SCBA, the cost and benefit are quantified, valued and discounted to determine their present value. The discounting technique revalues all the project's costs and benefits that occur at different times throughout the lifetime of project to make them comparable to the present costs and benefits. Discounting explicitly takes into consideration the role of time in the flow of a project's cost and benefit (Little & Mirrlees, 1974; Palm & Qayum, 1985; Sang, 1995; UNIDO & IDCAS, 1980).

The discussions concerning the practice of discounting in Islamic economics center around two main issues, namely the justifications for the validity or invalidity of positive time preference (or time value of money) and the alternative discount rate that is different from the interest rate. The discussions are very important as they are related with the most superior and widely used technique in project evaluation in mainstream economics. The following subsections reviews this concept from the Islamic point of view.

#### 2.2.3.1 Positive Time Preference

Time preference indicates the extent of an individual's preference for current consumption over future consumption, and positive time preference generally means that people think present consumption of an amount is superior to future consumption of the same amount (Rosly, 2003). Zarqa' (1983) does not recognise this concept as either a principle of rationality or an empirically prime tendency amongst the economic agents. According to him, it is only one of the three

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<sup>15</sup> If the rights or property of an individual have to be removed, he or she should be compensated fairly.

<sup>16</sup> Discounting is a procedure to convert future values of costs and benefits into present worth through the application of a discount rate (Sang, 1995).

<sup>17</sup> On the theoretical ground, most of the literature, in both conventional and Islamic economics, asserts the superiority of NPV over IRR (Bierman & Smidt, 1993; Brigham & Houston, 2001; Levy & Alderson, 1998; Zarqa', 1982 & 1983).

patterns of inter-temporal choice<sup>18</sup>. Similarly, Khan (1994) argues that “*the utility of money in the present is greater than the utility of same money in the future*” is conceptually a faulty assumption. He adds that the concept would lead to legitimacy of interest on capital lent. Others with similar stands are Iqbal & Khan (1981). Muqorobin (1998) believes its rationality in production rather than in consumption.

On the other hand, a number of Islamic scholars believe in its acceptability and validity in Islam. Amongst them are Khan (1991), Azhar (1992), Saadallah (1994), Al-Maṣrī (1999) and Rosly (2003). According to them, there is nothing against positive time preference or against realising a time value of money in the Islamic framework, as long as the time value of money is not claimed as a predetermined value (Khan, 1991). Additionally, the *Sharī'ah* admits that time has a value and recognises the innate human preference of what is in hand to what is loaned and of the immediate to the deferred (Saadallah, 1994). The prohibition of any conditional increase in the principal of a loan in return for deferred repayment does not indicate the invalidity of the concept of the time value of money in Islam (Saadallah, 1994; Al-Maṣrī, 1999; Rosly, 2003).

Indeed, Islam does recognise positive time preference, as evident in the sayings of the Prophet PBUH. The Prophet PBUH said: “Virtuous are they who pay back their debts well.” On another occasion, Mujāhid reported that ‘Abd Allah Ibn ‘Umar took some dirhams as a loan and paid back better dirhams<sup>19</sup> (Rosly, 2003). It is encouraged, in Islam, for the debtor to pay his debt well to manifest his gratitude towards the creditor. It is true, as the creditor has forgone his current consumption of the loaned money and relinquished the potential for income opportunities that may be obtained through putting the money to use in an economic activity. The potential profit of the economic activity is the economic cost borne by the creditor and is the indirect value of time from the perspective of the creditor. However, the potential for generating income is an unknown factor as it is subject to business risk. Thus, Islam does not allow any form of contractual reward (determined up-front) given in exchange for a loan (Rosly, 2003; Saadallah, 1994).

Moreover, the loan contract is also seen as a charitable contract from the Islamic point of view. The creditor (perceived as a donor) actually donates his potential opportunity of using the money to the debtor, and thus, the creditor deserves the (spiritual) reward from Allah as stated in a saying of the Prophet PBUH (Saadallah, 1994). From the above explanation, it is observed that the concept of the time value of money has justifications from the Islamic perspective. Therefore, it is acceptable to accept the concept of positive time preference or the time value of money in an Islamic framework, particularly in

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<sup>18</sup> The other two are zero and negative time preference. According to him, each of them is valid and rational under its own conditions (Zarqa', 1983).

<sup>19</sup> See Appendix 2 for full texts of the *hadith*. It should be noted that giving extra or addition in repayment of debt is a matter of choice and not a general ruling in the *Sharī'ah*.

matters pertaining to investment activities such as project evaluation<sup>20</sup>. This also entails that economic agents in an Islamic economy would have positive time preference, except in certain circumstances as highlighted by Zarqa' (1983), and there will be indicators (which are different from the interest rate) available in the economy to approximate the rate of their time preferences (Khan, 1991).

### **2.2.3.2 Discounting Future Costs and Benefits**

In spite of the differences between Islamic scholars on the preceding issue, there is a general agreement that discounting is allowed irrespective of the agreement, whether or not the concept of positive time preference is valid in Islam (Iqbal & Khan, 1981). Those who hold the invalidity of positive time preference amongst the economic agents argue that discounting future values is necessitated by considerations of inter-temporal economic efficiency as well as the avoidance of *israf* in consumption or production (Zarqa', 1983; Sattar, 1991). Additionally, the fact that Muslims are permitted to choose several *halal* (legitimate or lawful) investment opportunities in the society for a quite likely positive return makes the money now in hand more valuable than money in future (Iqbal & Khan, 1981; Sattar, 1991).

### **2.2.3.3 Discount Rate**

Interest is a form of *riba* and the elimination of *riba* is one of the important features of Islamic economics. This requires other alternative rates that are acceptable and appropriate in an Islamic framework. It is unanimously agreed in the literature on Islamic economics that the rate of return on capital (or equivalent profit rate) should replace the interest rate as the discounting factor in an Islamic framework (Choudhry, 1983; Zarqa', 1983; Khan, 1991; Sattar, 1991; Muqorobin, 1998). The use of the profit rate or rate of return on capital is based on the principle of opportunity cost. The rate of return in projects of comparable risks may be taken as the discount rate to reflect properly the true opportunity cost of project cash flows. The rate of discount for public projects, Social Rate of Discount (SRD), should properly represent the social opportunity cost (Zarqa', 1983). The fact that the profit rate and interest rate could perform as discount rates in the discounting technique does not justify that both could be used in an Islamic framework. The legitimacy of the former in an Islamic economy precludes the use of latter. Moreover, the profit rate in an Islamic economy is a completely different concept from the interest rate in mainstream economics (Iqbal & Khan, 1981).

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<sup>20</sup> The validity of the concept of the time value of money in Islam as a justification for discounting is still a matter of debate amongst the Muslim scholars and there is no authoritative opinion in this issue. Yet, most of them agree on the legitimacy of discounting technique for project evaluation.

#### 2.2.3.4 Time as an Element in Contract of Exchange and Project Evaluation

Islam sees time as not a mere consumption phenomenon, but also one of production. Work or activity (or to be more specific investment or production) is given priority over consumption, as consumption constitutes a means and production is an end (Muqorobin, 1998). Time is considered a subsidiary factor (not primary) of production in Islamic economics (Al-Maṣrī, 1999)<sup>21</sup>. It is true as time alone neither gives a yield nor produces by itself, unless it is joined to property – be it cash or any kind -, it acquires an indirect value (Saadallah, 1994). A labourer increases his output with time, land produces its crops with work and time, and a leased item is used during the leasing period (or time) and its rental is higher with a longer leasing time. In a way, rents and wages basically include a fixed reward for the time element (Khan, 1991). All these testify that time is an indispensable element for economic consideration as each economic process takes place within a period of time.

In addition to that, the jurists assert that time is a portion of price (Al-Maṣrī, 1999). This is evident from the juristic consensus that the price of an item may be increased in case of deferred payment as in *bay' al-mu'ajjal*<sup>22</sup>. This is permitted, as the time element is involved in the process of exchange, to offset the delayed payment (Khan, 1991; Saadallah, 1994). The proponents of the validity of the time value of money concept in the Islamic framework maintain that the legitimacy of this type of sale gives more support to the validity of such concept in Islam. In terms of the involvement of the time element in project evaluation, the project that yields returns earlier is preferable to one that requires a longer period, provided all the income and other things related to both projects are the same (Al-Masri, 1999).

From the above discussion, the researcher reasserts that the mainstream discounting technique for project evaluation can be modified to suit the Islamic concepts and principles. Thus, the use of the discounting technique to get the present value of a project's cost and benefit is possible in an Islamic framework with the rate of return as the discount rate.

#### 2.2.4 The Notion of (Commercial) Profit Maximisation for Private Projects

The project evaluation framework in mainstream economics involves two broad categories of project profitability as described earlier. They are *commercial* and *national*

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<sup>21</sup> There are five factors of production in Islamic economics, three of them are primary and the last two are subsidiary factors. The primary factors are land, work, and property, whilst the subsidiary factors consist of risk and time elements. Risk and time are considered as subsidiary factors because these two elements could not generate output by themselves, as they need to be joined to land or work or property to generate output.

<sup>22</sup> *Bay' al-mu'ajjal* is a sale on deferred payment, i.e. the goods are delivered not but the price is delayed to the future. In this contract, the price may be different from the prevailing market price (Khan, 1991).

profitability. The former relates mainly to private projects and the latter relates to public ones (Muqorobin, 1998). Private individuals are acceptably assumed to make decisions on the basis of the commercial profitability of a project. This entails that individuals should decide on projects that maximise their commercial profitability. This is considered as the nature of the private business environment. The impact of the project on the national and social profitability is mainly the concern of the public authorities (Sang, 1995). The notion of (commercial) profit maximisation still stands as the basic assumption even though many have argued that individuals have objectives other than profit maximisation (Amin & Yusof, 2002). The emphasis on the consideration of the national and social impact of a project in the mainstream literature is mainly meant for public projects (Sugden & Williams, 1978). However, the notion of profit maximisation has received objections from some Islamic scholars.

The Islamic standpoint on this issue should be clear for the project analysts of private projects. The understanding of this issue will have an impact on their judgment later. Zarqa' (1982) asserts that the notion of profit maximisation is not in line with the spirit of Islam, except in certain circumstances. However, he supports this notion for *awqāf* projects. According to him, *awqāf* administration should choose a project which maximises the present value of net profits from an investment. His argument is that *awqāf* administration in most Muslim countries lacks sufficient income to properly carry out their major functions in society and burdening them with the objectives other than profitability would adversely affect the ability of *awqāf* to fulfill its other social responsibilities (Zarqa', 1994). On the other hand, Faridi (1983) observes *awqāf* institutions as examples of the voluntary sector in the Islamic economy which is not by intent or design, undertaken to attain any economic or material benefit for the doer (s) but could cause wide ranging economic ramifications. Hence, the profit maximisation notion does not suit the *awqāf* institutions. Amongst the examples of such voluntary activities are the provision of shelter and meals to wayfarers, the cash disbursement of *Ṣadaqāt* and charitable contribution to the state's defence needs (Faridi, 1983).

Arief (1982) conceives profit maximisation as irrelevant as money income ceases to be the primary objective in Islam. Nevertheless, profit must be maximised in order to survive in a situation of perfect competition since the profits so maximised are by definition 'normal' profit. Profit maximisation *per se* in this limiting case does not apparently violate the Islamic principles. But, profit maximisation in situations of monopolistic competition, oligopoly, monopoly etc., resulting in abnormal profits is certainly not in conformity with the Islamic economic order (Arief, 1982). Islamic individual behaviour should be guided by the pursuit of *falāḥ* (success). This concept considers the individual as a maximiser of *falāḥ* in this present life as well as in the hereafter. This attitude rules the Islamic rationality, as opposed to the Smithian notion of individual self-interest (Hallaq, 1994; Sattar, 1991).

On the other hand, Amin & Yusof (2002) conclude that the notion of profit maximisation can still be applied in an Islamic framework. All together, they stress the incorporation of Islamic values, particularly the concept of *maṣlahah*, in the determination of the cost of production in an Islamic framework. Similarly, Hassan

(1992) maintains that profit maximisation in an Islamic economy is likely to be different from that in mainstream economics. This is due to several reasons. For examples, the abolition of interest and the profit-sharing system with labour in the Islamic economy would promote growth and distributive justice at the same time. In addition to that, Islam also envisages business as a *farḍ al-kifāyah* where social obligation takes precedence over self-enrichment. Thus, the application of profit maximisation should not violate any of these values (Hassan, 1992).

It appears to the researcher that the notion of profit maximisation is acceptable in Islam, provided that individuals do not violate any Islamic principles in applying the concept. As a general principle in Islam, individuals are permanently recognised as having the right to own and decide on economic activities of their choice within the *Sharī'ah* boundaries and Islam allows ample scope for individuals to move and manoeuvre their economic activities (Hassan, 1995). It should also be understood that the notion of profit maximisation should be comprehended and applied in line with the objectives of Man's existence i.e. to achieve well-being in this world and the hereafter and the approval of Allah (Amin & Yusof, 2002).

### 3.0 CONCLUSION

The topic of project evaluation is an enormous and vast topic covering a lot of issues. This study, however, concentrates only on the framework for project evaluation to give the study focus, conciseness and persistent direction. The methodological and technical issues are not within the scope of the present study. Firstly, we have seen that the framework for project evaluation offered today in mainstream economics, with its complexity and thoroughness, has been developed in isolation from Islamic input. The active participation from international organisations such as the World Bank, UNIDO, IDCAS and the OECD has further developed and advanced the framework for project evaluation in mainstream economics. With due acknowledgements to the contributions of mainstream economics towards the birth and development of the existing methodology and framework for project evaluation, the study insists on its deficiency and inability to serve the Muslim governments and individuals to opt for the most preferable project under the light of *Sharī'ah*.

Reconsidering the main principles of the mainstream project evaluation framework from the Islamic point of view, this study found that most of the mainstream framework is Islamically acceptable in principle. The technical tools that have been developed in mainstream economics are very helpful and valuable in the profitability analysis of projects in an Islamic framework. Nonetheless, the detailed justification and structure of an Islamic framework for project evaluation might differ from the mainstream one. For example, the role of interest should be abolished in an Islamic framework and be replaced with the rate of return or equivalent profit rate.

The study also found that the concept of *maṣlaḥah* or *Sharī'ah* objectives has a significant impact on an Islamic framework for project evaluation and would greatly distinguish the Islamic framework from the mainstream one. The significance of this

*maṣlaḥah* concept is to ensure the coherence of the selected project with the *Sharī‘ah*’s objectives and the Islamic system as a whole. Furthermore, the *maṣlaḥah* concept could rationalise the choice of a project in an Islamic framework even though the selected project seems to be irrational from the mainstream economics point of view.

Project analysts and decision makers in an Islamic framework for project evaluation should also be guided by Islamic values in making their judgments. This is imperative to ensure that decisions made will not contradict the established values in Islam. The values could also influence the attitude of the project analysts and decision makers towards several important issues in an Islamic framework and could be used as a basis for giving preference for some projects over others.

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