Multicriteria Analysis for Development Planning

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DEVELOPMENT PLANNING

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1.   INTRODUCTION

A particularly vexing methodological difficulty in the design
and evaluation of planning proposals concerns the way in which
choices are made. Clearly, the selection of the "best" action
from several alternatives, each of which will have different
outcomes or consequences, is very subjective. This problem
grows in importance if the actions under consideration will
ultimately determine the welfare and wellbeing of a region, as
is often the case in development planning. Many planning
activities in developing countries are concerned with the con-
struction of new infrastructure, rather than the improvement
of an existing regime more typical of developed countries.
Hence, methods and techniques which facilitate the treatment
of choice or classification problems can be of tremendous
importance in development planning.

One important subset of such tools is that composed of
approaches which use a multidimensional set of sometimes con-
flicting criteria or objectives to structure and solve a choice
or classification problem. These are usually called *multi-
criteria methods*. The purpose of this paper is to assess

various multicriteria approaches in terms of their potential use in development planning.

The structure of the paper is as follows. In Section 2 the nature of multicriteria analysis is discussed in some detail. A distinction is made between *continuous multicriteria methods* and *discrete multicriteria methods*. The first of these classes of methods is the subject of Section 3; the second is treated in Section 4. The final section summarises the conclusions of the study and points to some issues for future research.

2. SOME PRINCIPLES OF MULTICRITERIA ANALYSIS

A planner involved in the design or evaluation of plans or projects has to begin by considering several important questions. For example, what constitutes an exhaustive set of alternatives? Which variables are relevant in characterizing each project or plan? A fundamental question underlying the selection of variables is whether the variables regarded as important by the planner are in fact those perceived to be important by the public. This raises another question, viz., who should participate in the planning process, at what stage, and in what way. Answers to questions of this kind depend on the ability of the planning agency to gauge public opinion. This is a very complex procedural problem, which cannot be considered as a simple exercise in measurement or technical evaluation.

To obtain a better idea of the complexity involved, it is useful to think in more specific terms. Assume a finite and exhaustive set of *alternative plans*

$$P = \{p_1, p_2, \ldots, p_J\} \tag{2.1}$$

from which one plan must be chosen. Each plan can be evaluated by means of a finite set of *variables*

$$A = \{a_1, a_2, \ldots, a_N\} \tag{2.2}$$

which can be included in a finite set of *criterion functions*

$$F = \{f_1,\ f_2,\ldots,\ f_I\} \qquad\qquad (2.3)$$

where the f's may be linear or nonlinear functions of the variables. The relationship between these factors can be illustrated as follows. Let e_{i1}, e_{i2},..., e_{iJ} denote the values taken by the criterion function i for plans $1,2,\ldots,J$. Then the set of values attained by all criterion functions for all plans can be arranged in a matrix as follows:

	alternative plans					
	p_1	p_2	$\cdots$	p_j	$\cdot\cdot$	p_J
f_1	e_{11}	e_{12}	$\cdots$	e_{1j}	$\cdot\cdot$	e_{1J}
f_2	e_{21}	e_{22}	$\cdots$	e_{2j}	$\cdot\cdot$	e_{2J}
f_i	e_{i1}	e_{i2}	$\cdots$	e_{ij}	$\cdot\cdot$	e_{iJ}
f_I	e_{I1}	e_{I2}	$\cdots$	e_{Ij}	$\cdot\cdot$	e_{IJ}

(criteria)

This array is also known as an evaluation matrix, project-effect matrix, or effectiveness matrix. For instance, if the aim were to plan a transportation system the criteria may be road capacity, transportation costs, maintenance costs, accessibility of service centers, visual and aesthetic appeal, levels of pollution, etc.

There are many methods that could be used to reduce the amount of information included in the above matrix, most of which use information concerning the relative importance of the various e_{ij} scores (i.e., *priorities* or *weights*). This may result in a classification of the alternatives under consideration which may be used in the policy-making process. Such methods are called *discrete multicriteria methods*, where the work "discrete" implies that a finite number of explicitly formulated alternatives is considered. Some recent surveys and discussions of discrete multicriteria methods can be found

inter alia in van Delft and Nijkamp (1977), Nijkamp (1979a, 1980), Rietveld (1980), Kmietowicz and Pearman (1981) and Voogd (1982).

Discrete multicriteria methods are especially suitable for problems in which the alternatives are precisely known. However, there are also many cases in which only the *dimensions* of the alternatives are known (e.g., a plan must include 'some' transportation infrastructure, 'some' housing, 'some' employment, etc.), but the exact value of each dimension is not fixed. This implies that a continuous number of alternatives must be taken into consideration; instead of explicit alternatives, there is additional information on the feasible area in which an optimal solution (i.e., 'best' plan) may be situated. This may be illustrated with the following brief example. Consider two criteria e and m, which should have values as large as possible, and the associated *feasibility spectrum* (shown in Figure 1).
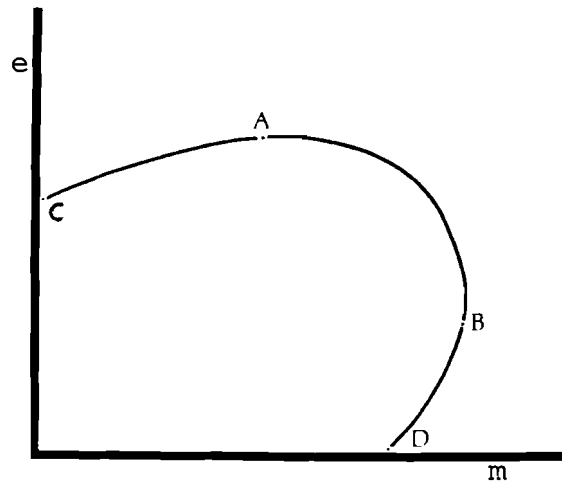
Figure 1. A feasibility spectrum for e and m.

This curve is usually called the *efficiency frontier* (or Pareto frontier, attainment-possibility frontier, set of nondominated points, set of noninferior points). It can be regarded as the locus of all points for which e cannot be increased without a decrease in m, and vice versa. Evidently, good solutions are represented by points on the efficient locus AB: any other point in the feasible set is dominated by a point on the arc AB. The choice among points on AB depends on the relative priorities

of e and m and may be influenced, among other things, by institutional factors. A compromise solution (or compromise plan) of this type can ex post be defined as that efficient point (Pareto solution) which leads implicitly to the highest weighted total utility. The general form of such a model is:

$$\max_{\underline{a} \in K} \underline{f} (\underline{a})$$

(2.4)

where $\underline{f}$ is an I x 1 vector of criterion functions (also called objective functions), $\underline{a}$ is a J x 1 vector of decision variables, and K is a feasible area which defines the solution space. A multidimensional optimization (or programming) model of this type might, for example, be required to maximize production *and* employment *and* energy savings *and* system accessibility, subject to the constraints of limited resources and available techno-logy.

Another central concept in this kind of multicriteria analysis is that of the *ideal point* (or reference point or utopia point). The ideal point $\underline{f}^O$ is defined as an I x 1 vector whose components are the maximum values of the individ-ual criterion functions. This means that the elements f_i^O of $\underline{f}^O$ are defined as:

$$f_i^O = \max_{\underline{a} \in K} f_i (\underline{a})$$

(2.5)

The closer a point is to the ideal point, the better the alter-native it represents. Obviously, the feasibility frontier also plays a central role in this approach, since it reflects the degree of conflict or complementarity between different possible outcomes. There are in fact infinitely many options, the number of which can be reduced by using a concept such as the ideal point. Because of the continuity of the alternatives under consideration, methods of this type will be called *continuous multicriteria methods*. This subject is treated inter alia in Keeney and Raiffa (1976), Bromley and Sfeir-Yonnis

(1977), Zeleny (1976b), Thiriez and Zionts (1976), Starr and
Zeleny (1977), Bell et al. (1977), Nijkamp (1979a), Wierzbicki
(1979a), Rietveld (1980), and Spronk (1981).

It is unfortunately the case that the information and data
systems available for many regions in developing countries are
generally rather poor; in particular, there is usually little
quantitative (metric) data available for development planning.
Consequently, it is also useful to classify multicriteria methods
according to the accuracy of the data they require (see Table 1).

Table 1. A typology of multicriteria methods.

Type of method	Type of data	
	Hard	Soft
Discrete	I	II
Continuous	III	IV

Thus, multicriteria methods may be divided into *hard data
methods* and *soft data methods*. Soft data methods are based on,
for example, qualitative, fuzzy or ordinal data, while hard
data methods are based on cardinal or metric data. Given the
previous classification into discrete and continuous methods,
it is clear that at least four main categories of methods may
be distinguished (Table 1). These will be discussed in more
detail in the next sections, where the soft data methods (i.e.,
categories II and IV) will be emphasized due to their importance
for development planning.

3.   CONTINUOUS MULTICRITERIA METHODS

There are many different continuous multicriteria methods
currently in use (see Nijkamp, 1979a; Nijkamp and Spronk, 1979).
The class of hard continuous methods includes utility function
approaches (Farquhar, 1977; Fishburn, 1970), penalty models
(Theil, 1968), goal programming (Lee, 1972; Charnes and Cooper,

1977; Spronk, 1981), min-max approaches (Nijkamp and Rietveld, 1976; Rietveld, 1980), reference point approaches (Zeleny, 1974, 1976a,b; Nijkamp, 1979b; Wierzbicki, 1979b; Lewandowski and Grauer, 1982), and hierarchical models (Nijkamp, 1977; Rietveld, 1980).

Utility methods are based on the assumption that the whole vector of relevant criteria or objectives can be translated by means of a weighting procedure into one utility function. This implies that (2.4) can be respecified as:

$$\max_{\underline{a} \in K} \phi = f (\underline{a}) \tag{3.1}$$

where ϕ is the master control of a scalar-valued optimization function. This approach has only limited value, since it pre-supposes <u>a priori</u> known quantitative trade-off rates.

Penalty models assume the existence of a set of desired achievement levels, reflected by an ideal vector $\underline{f}^O$. Any discrepancy between an actual value $\underline{f}$ and an ideal value $\underline{f}^O$ incurs a penalty calculated by means of a penalty function which could, for instance, be quadratic:

$$\min \sum_i w_i \; (f_i - f^O)^2 \tag{3.2}$$

The coefficient w_i (i=1,2,...,I) represents the weight attached to deviating from the ideal value of criterion i. Evidently, the main difficulty in applying this kind of model is lack of information about appropriate penalty functions.

Goal programming methods are widely used to treat many different types of problems. They are essentially a subclass of penalty models for which the penalty function is defined as:

$$\sum_i w_i \; (f_i^+ + f_i^-) \tag{3.3}$$

where f_i^+ and f_i^- are the respective over- and underachievement of f_i with respect to the <u>a priori</u> specified achievement level

f_i^O for each criterion i. The plan that minimizes the penalty
is considered to be the most attractive option. This approach
is especially appropriate when used interactively so that the
users can learn about the problem and modify their aspirations
(achievement levels) accordingly.

Min-max approaches are based on the use of a matrix repre-
senting the pay-offs between conflicting objectives. The first
step is the separate optimization of each criterion or object-
ive function f_i:

$$\max_{\underline{a} \in K} f_i(\underline{a}) \text{ for all } i \tag{3.4}$$

The optimal value of each function from (3.4) is then denoted
by $f_i^O(\underline{a}^i)$, where the vector of variables associated with this
individual optimum is denoted by $\underline{a}^i$. A pay-off table represent-
ing the conflicts between the individual objectives is then con-
structed, each column corresponding to a given function and
each row to the strategy $\underline{a}^i$ which represents an optimal solu-
tion with regard to the ith function. In each row i, we
record the value achieved by each objective function when the
strategy $\underline{a}^i$ is adopted. Thus, $f_1(\underline{a}^i)$ is the value of the first
criterion or objective function that is obtained when strategy
$\underline{a}^i$ is adopted, $f_2(\underline{a}^i)$ is the value of the second criterion under
strategy $\underline{a}^i$, and so forth. This pay-off table can then be used
in several ways. For example, an equilibrium or min-max solu-
tion may be identified--this would be the solution that is
nearest to the set of ideal solutions given on the main diagonal
of the pay-off table (the values $f_i^O(\underline{a}^i), i=1,2,\ldots,I$).

This approach is obviously especially appropriate when it
is necessary to take into account different views of a problem
in some explicit way. Each view is represented by a criterion
(objective) function and the information given in the pay-off
table may then be used to help the decision maker(s) to arrive
at a compromise solution.

Reference point approaches are based on the concept of an
ideal point already mentioned in the preceding section. They

usually employ some kind of distance metric to assess the deviation between ideal solutions $f_i^o(\underline{a}^i)$ on the one hand and the set of efficient solutions $f_i(\underline{a}^*)$ on the other. The compromise solution is defined as the option in the set of efficient solutions for which the distance to the ideal solution is a minimum. It should be noted that there are also reference point approaches which are formulated in a goal programming framework, where the reference point represents a set of aspiration levels. This approach is also particularly appropriate when there is direct interaction between the user and the computer so that reference points can be modified during the course of the analysis.

Hierarchical models are based on the assumption that all criteria or objectives can be ranked in importance. Optimization is then carried out in a stepwise fashion, so that higher-ranking functions are optimized before those of lower rank. A tolerance parameter (or relaxation factor) can be specified for each function (except the most important), indicating the maximum deviation from the optimum $f_i(\underline{a}_i^o)$ considered acceptable by the users.

The hard continuous multicriteria methods described above have received considerable attention in the literature. The same is not true for soft continuous approaches, however, which undoubtedly represent a much less developed area of multicriteria analysis. Three different approaches may currently be distinguished: the fuzzy set approach (Chang, 1968; Bellman and Zadeh, 1970; Capocelli and De Luca, 1973), the stochastic approach (Donckels, 1975), and the soft econometric approach (Nijkamp and Rietveld, 1982).

Fuzzy set methods focus on criteria or constraints that are not sharply defined, so that the boundaries of the decision area are not marked out in an unambiguous manner. By using fuzzy set theory, it is possible to derive measures for the extent to which an element (e.g., aspect) belongs to a certain category. This information can be quantified by means of so-called membership functions, and can then be utilized in some

hard optimization method. The definition of membership func-
tions is crucial to the use of the fuzzy set approach.

The use of *stochastic approaches* in continuous multi-
criteria analysis has been quite uncommon up to now. Neverthe-
less, if qualitative or ordinal decision variables can be
approximated by cardinal (metric) variables with a certain pro-
bability distribution, it is possible to construct a stochastic
optimization model. The most probable compromise solution may
then be identified using an appropriate hard multicriteria
method. One of the main drawbacks of this approach is usually
the lack of information about appropriate probability functions.

The *soft econometric approach* is perhaps the most promising
basis for soft continuous multicriteria methods. This approach
involves the transformation of qualitative or ordinal data input
into metric units, which may then be analyzed further by means
of an appropriate hard multicriteria method. Although no appli-
cations of this approach in the field of optimization are known,
the general principles are certainly applicable in multicriteria
analysis. This is still a relatively new technique, however,
and further research is necessary.

It may be concluded from the above descriptions of contin-
uous multicriteria methods that the development of soft methods
is lagging far behind that of hard methods. For this reason
the use of soft methods in development planning is currently
very limited, despite promising progress in recent years. We
will return to this point in the final section of this paper.

4.   DISCRETE MULTICRITERIA METHODS

Discrete multicriteria methods are based on the existence
of a fixed number of explicitly defined alternatives. The first
step in all these methods is to construct an evaluation matrix,
as explained in Section 2, since the purpose of this kind of
multicriteria analysis is to make some kind of evaluation of
the various alternatives available. However, such an evaluation
is only possible if there is a *weighting scheme* which expresses
the relative importance of the various scores.

In the past, cost-benefit analysis has been the method most
commonly used to evaluate discrete alternatives. However, many

projects or plans are concerned with outcomes or consequences
which cannot be discussed in terms of prices, and this makes
the cost-benefit approach inappropriate for complex decision
making (see Nijkamp, 1977, for an extensive criticism).
Related methods such as the planning-balance sheet method,
cost-effectiveness analysis, and the shadow project approach
are significant improvements upon traditional cost-benefit
analysis for complex planning purposes, but provide no solu-
tion to the problem of judging incommensurate and intangible
outcomes.

Instead of using (artificial) prices to assess the rela-
tive merits of these intangible outcomes, discrete multicriteria
methods assign political priorities to certain criteria. These
weights reflect the relative importance attached to the outcomes
associated with each criterion. However, political weighting
schemes are often difficult to infer from questionnaires or
other procedures designed to reveal preferences (see Voogd,
1982). When such weights cannot be assessed a priori, the
analyst may proceed in one of two ways: he may either (a) use
general alternative scenarios as the basis for deriving alter-
native sets of weights; these scenarios may reflect alternative
policy directions (views) or future policy choices (see Nijkamp
and Voogd, 1979), or (b) use an interactive learning procedure
during which relative priorities are specified in a stepwise
manner (see van Delft and Nijkamp, 1977).

There are many discrete multicriteria methods, both for
hard and for soft data. The following hard data methods will
be considered here: the expected value method (Schimpeler and
Grecco, 1968; Schlager, 1968; Kahne, 1975), the discrepancy
analysis technique (Nijkamp, 1979a), the goals-achievement
method (Hill, 1973), and the concordance approach (see Guigou,
1974; Roy, 1972; van Delft and Nijkamp, 1977).

The *expected value method* assigns weights to the criteria
and treats these weights as "quasi-probabilities" which must add
up to 1. Thus the expected value of the outcomes of each alter-
native plan can be calculated by multiplying the value obtained
for each criterion by its appropriate weight and then summing

the weighted values for all criteria. Essentially, the expected
value method calculates the weighted average of all (standardized)
criteria scores. This method implies a rather rigid approach
since it assumes perfect linear substitution of the values for
the various criteria, which is seldom true in practical appli-
cations.

Discrepancy analysis attempts to rank the plans according
to their discrepancy from an optimum plan. This (hypothetical)
optimum plan achieves a set of predefined goals. Statistical
correlation coefficients are then used to identify the plan
most similar to the reference plan. This method should be used
with care, because the various discrepancies in the outcomes of
a plan cannot be made sufficiently explicit.

The *goals-achievement method* links each criterion with a
quantitative achievement level or target value. Evaluation
essentially involves taking the achievement score for each
criterion, and aggregating these to give a total achievement
score for each alternative plan. The values are aggregated
using a weighted summation procedure similar to that described,
above for the expected value method. The goals-achievement
method is widely used in planning practice due to its simple
and straightforward structure.

The *concordance approach* is also widely used. This method
is based on a pairwise comparison of alternatives, thus using
only the metric interval characteristics of the various outcome
evaluations. The basic idea is to measure the degree to which
the outcomes and their associated weights confirm or contradict
the dominant pairwise relationships among alternatives. The
differences in weights and the differences in evaluation scores
are usually analyzed separately. This approach uses the
available information reasonably well and can be considered as
a useful type of discrete multicriteria model.

In recent years, much attention has been paid to the
development of *qualitative* or *soft* evaluation techniques,
with considerable practical success. As a result, many opera-
tional soft discrete multicriteria methods are now available.

The following approaches will be discussed here: the eigen-value approach (Saaty, 1977; Lootsma, 1980), the extreme expected value method (Kmietowicz and Pearman, 1981; Rietveld, 1982), the permutation method (Paelinck, 1976), the frequency approach (van Delft and Nijkamp, 1977; Voogd, 1981a), the geo-metric scaling approach (Nijkamp and Voogd, 1979, 1981), and the mixed data approach (Voogd, 1981b, 1982).

The *eigenvalue approach* involves the pairwise comparison of alternatives (Saaty, 1977). This comparison is carried out using a nine-point scale, where the value 1 means that the two factors being compared are of equal importance while the value 9 implies that one is much more important than the other. A table is constructed for each criterion, in which the alter-native plans are compared in a pairwise fashion with respect to that criterion. The criteria themselves are then compared in a similar way, resulting in a separate criteria evaluation table. The next step is to aggregate the information in each table using an eigenvalue procedure. This involves the calcu-lation of quantitative evaluation scores and weights, which are then used in a weighted summation procedure to determine an aggregated appraisal score for each alternative plan. This approach therefore has the same drawbacks as the expected value method discussed earlier. In addition—and this is probably the most fundamental limitation of the approach—it is impos-sible for the user to relate the values of the criterion weights to the values obtained for the plan outcomes. In other words, the weighting is independent of the characteristics of the various plans.

The *extreme expected value method* can be regarded as an extension of the expected value method discussed above. It is still assumed that the scores achieved by each plan with respect to each criterion have quantitative properties, but in addition it is postulated that the probabilities (weights) are only known in a qualitative sense, i.e., only their ordinal properties are given. In essence, the aim of this approach is to determine the alternative with the maximum or minimum expected value. This is done by solving the following linear programming problem:

$$\text{max or min } EV_j = \sum_i p_i\, e_{ij}$$

$$\text{subject to } p_1 \geq p_2 \geq p_3 \geq \cdots \geq p_I \geq 0 \qquad (4.1)$$

$$\sum_i p_i = 1$$

where EV_j denotes the expected value of alternative j and p_i is the probability associated with the evaluation e_{ij} of alternative j with respect to criterion i. Some elementary operations lead to maximum and minimum expected values, which may be used in a final assessment of the alternatives. However, Rietveld (1982) has shown that this assessment should not be made solely on the basis of the extreme values, but should also take into account certain values of EV_j generated for intermediate values of p_i.

The *permutation method* is based on a comparison of all possible final rankings of alternative plans in order to find the best 'final' ranking. For each hypothetical final ranking a score is calculated which measures how well this ranking corresponds to the (ordinal) values registered by each plan for each criterion. Instead of the original set of alternative plans we now have a new set of alternative configurations of rankings. Then, using a weighted summation procedure involving the extreme values of the ordinal weights, an appraisal score for each permutation is calculated. Given the extreme weight set used, the best final ranking of alternatives can thus be determined. The use of this approach is limited to problems involving only a few alternatives because of the number of permutations, although a more heuristic extension to deal with many alternatives is possible.

The *frequency approach* is also based on the pairwise comparison of alternatives. The basic idea of this approach is to transform the available ordinal information into information on a 'lower' (i.e., binary) scale, which is then treated as a frequency statistic. This approach also has the disadvantage that it may become rather cumbersome if a large number of alternatives and criteria are involved.

The *geometric scaling* approach is based on the principles of nonmetric multidimensional scaling. The basic idea of this approach is to transform a large amount of ordinal data into a small amount of metric (cardinal) data, such that the new cardinal configuration is as close as possible (has maximum goodness-of-fit) to the ordinal data. One limitation of this elegant approach is that it requires a fairly complicated computational algorithm. In addition, evaluation problems treated by this method should have a sufficient number of degrees of freedom to allow geometric scaling. This implies that unless sufficient ordinal information is available, no metric data can be extracted.

Except for the extreme expected value approach, which assumes cardinal evaluation scores, all of the soft multicriteria methods mentioned above deal with qualitative weights and qualitative assessments of the alternatives with respect to individual criteria. Consequently, most of these methods have already been used in planning practice, despite the fact that they have only just been developed. However, one much-voiced and persistent criticism of these techniques is that only the ordinal characteristics of the available quantitative information are utilized. Therefore the most recent research in this area has concentrated on the development of methods capable of dealing with *mixed data* i.e., evaluation matrices containing both quantitative scores and qualitative rankings. Nijkamp and Voogd (1981) have developed a mixed-data procedure based on the geometric scaling approach which obviously suffers from the same limitations as the simpler version mentioned above. Another set of methods has been developed by Voogd (1981b, 1982); these involve the construction of two measures: one dealing only with ordinal information and the other with cardinal information. By making various assumptions, the information from these measures can be aggregated into one appraisal score for each alternative. Thus, different mixed-data methods have been constructed using different sets of assumptions.

In conclusion, it can be said that a whole series of soft discrete multicriteria methods is now available, each method

having its own particular advantages and disadvantages and
making its own individual assumptions. These evaluation
methods are especially useful for development planning problems
because they require only a modest amount of information of
modest quality.

5. CONCLUDING REMARKS

Multicriteria methods have become an integral part of
modern planning methods and techniques. For global and macro
decision problems and policy scenario analyses, hard continuous
multiobjective methods have reached a stage of sufficient matur-
ity that they can be and actually *are* applied in a wide variety
of policy analyses. They may also be used to scan problems
and to identify the main alternative lines of action. Hard
discrete multicriteria methods have become very useful in micro
decision problems and project evaluation problems. The soft
variants of discrete multicriteria methods have also been
successfully applied in many plan and project evaluation prob-
lems, although much work remains to be done on soft continuous
models. The latter class of methods could be very useful,
especially for planning and decision problems with limited or
qualitative information, so that further research in this area
is certainly justified.

One problem still remains to be discussed, viz., the prob-
lems of uncertainty regarding the application of various methods.
Not all methods give the same results, so that a sensitivity
analysis may be necessary (see especially Voogd, 1982). Clearly
such a sensitivity analysis should only be carried out on a
set of models preselected on the basis of methodological, theo-
retical, and empirical criteria.

The above survey has given a brief indication of the
variety of multicriteria methods available for use in planning
and policy problems with conflicting objectives. Some of these
techniques may play an important role in development planning
in lagging areas or countries. When reliable data is difficult
to obtain, the soft variants may be especially helpful.

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