**CHAPTER THREE: PROJECT IDENTIFICATION AND SCREENING**

**3.1 Project Idea- Meaning**

Project idea identification is the first step towards establishing a successful venture. This stage is about finding potential projects that will result in positive net present value or that provide benefits for the society. This is the starting stage in the project cycle. Projects usually start as new ideas which are carefully examined and if found feasible and desirable are translated in to projects. Such initiation of project ideas is called project conception. Project conception is forming or developing ideas regarding a required intervention in a specific area to address a problem or take advantage of opportunities. Identification of project idea requires imagination, sensitivity to environmental changes and realistic assessment of what the firm can do. Theoretically an investor has an infinitely wide choice with respect to investment opportunities.

Project identification is interrelated with the government policies, infrastructural developments and skill of people. Project identification is concerned with collection, compilation and analysis of economic data for the purpose of locating possible opportunities for investment and with development of such opportunities. Identification is often the outcome of triggering process rather than the analytical exercise.

**Stimulating the flow of ideas:**

Often firms adopt a somewhat casual and haphazard approach to the generating of project idea. To stimulate the flow of ideas the following are helpful.

 SWOT analysis

 Clear articulation of objectives

***SWOT Analysis:***

SWOT Analysis is an acronym for strength, weakness, opportunities and threats. SWOT analysis represents a conscious deliberate and systematic effort by an organization to identify opportunities that can be profitably exploited by it. Periodic SWOT analysis facilitates the generation of ideas.

***Clear Articulation of objectives of a firm may be use one or more of the following.***

►Cost reduction

►Productivity

►Increase in capacity utilization

►Improvement in contribution margin

► Expansion in to promising fields

A clear articulation and prioritization of objectives helps in channelizing the efforts of employee and urges them to think more imaginatively.

**Projects can be conceived on the basis of:**

 Needs – to avail certain goods and services to peoples in a locality.

 Market demand – domestic or overseas

 Resource availability – to make profitable use of available resources

 Technology – to make use of available technology

 Natural calamity

 Political considerations

The individuals who can initiate project ideas from the above sources include:

**1. Technical specialists**

Technical specialists can initiate project ideas from their experiences of through their research findings. This usually is common in manufacturing firms where mechanical and industrial engineers working there generate new expansion and/or new industrial projects. These projects usually either improve the products being produced currently or produce new products.

**2. Local leaders**

Social and community projects could emanate from the suggestions made by local leaders regarding the problems prevailing in the area. Local leaders could also initiate project ideas from already identified or implemented projects. For instance, project ideas on irrigation could be initiated from an already constructed hydro-electric dam.

**3. Entrepreneurs**

Entrepreneurship includes the characteristics of perception of managerial competence and motivation to achieve results. These characteristics make entrepreneurs the major sources of industrial and commercial projects. Although entrepreneurship skills have been passed on from one generation to another along family and socio-economic circles, it has been recognized that programs for entrepreneurship development will help individuals to come up with useful ideas.

**4. Governments**

Government guidelines such as national development plans that spell out what the government is likely to do to achieve its targets in different sectors of the economy are the sources of many projects by the government and entrepreneurs.

**Tips to find good project ideas**

Identifying good project ideas that can be translated to viable projects requires looking in to a wide variety of sources. Some of the sources to look in to in finding good project ideas include:

**A) Analyzing the performance of the existing industries**

Analyzing the exiting firms in an industry in terms of their profitability and capacity utilization can indicate of promising investment opportunities. Analysis of the capacity utilization of the existing firms can be used to assess the possibilities for further investment. Such studies become more useful if they are made region wise, particularly for products with high transportation costs. This makes the analysis more dependable because the chance that the product will be supplied from distant areas is minimal.

**B) Examine the inputs and outputs of existing industries**

Analysis of the inputs being used by existing industries could be sources of project ideas relating to supplying these inputs. Profitable opportunities exist when:

 Materials and parts are being supplied from distant areas with lags and high transportation costs

 Several firms are internally producing some components which can be supplied at a lower cost by a single manufacturer which can employ economies of scale.

Analysis of the out puts of firms will provide project ideas on further processing of the products. In addition, the analysis of out puts can throw up ideas on utilization of wastes products and byproducts. Production of ethanol from the byproduct of sugar factories is a good example in this case.

**C) Review of imports and exports**

Review of the imports of a country over the years provides possibilities of import substitution. Such projects have numerous benefits for the country in terms employment creation, forward and back ward linkages, and improving balance of payments. Analysis of exports presents the export possibilities. Many of the plastic factories in our country could be mentioned in this instance.

**D) Government plans and guidelines**

The national development plan of a country is good indicator of a government’s likely expenditures in the future. Hence, careful review of the government’s national and sectoral development plans and strategies can identify profitable projects with an added advantage of facilitating a country’s development goals.

**E) Investigation of local resources and skills**

A search for project ideas may start with the analysis of the local resources and skills. Then projects that can profitably utilize the skill and resources will be designed. The weaving skills of those making traditional clothes could be a source of project idea if one plans to use the skill for mass production of the clothes.

**F) Analyze social and economic trends**

Future demand for a good or a service is hugely affected by the social and economic changes of a society. Therefore, close investigation of the economic trends and social changes on consumption patterns provide many business opportunities. The changes in the settlement and working pattern of Addis residents somehow have resulted in trash collection services.

**G) Drawing clues from consumptions abroad**

Entrepreneurs may identify projects for the production of products or supply of services which are new to the country but extensively used abroad. Packed water production by Apex bottling and other manufactures can be taken as an example here.

Other sources include: exploring the possibility of reviving a sick firm, attending trade fairs and looking in to the suggestions being made by banks and trade and industry agencies.

**3.2 Sources of Project Ideas:**

There are multiple sources of project idea. Project ideas will contribute to the realization of development objectives. Good project idea, the key to success, is elusive. So a wide variety of sources should be trapped to identify them. For our practical purpose, the sources of project ideas are mainly classified into two types. **The classifications are as follows:**

1. Macro Source of Project Idea

1. Micro Sources of Project Idea

***3.2.1 Macro Sources of Project Idea:***

Macro sources otherwise called Sector Sources. In this level, it will require an analysis of the overall investment potential in developing countries. It refers to the source of project idea, which is reflected from national, regional and Sectoral level sources. **For example,**

 Lack of foreign exchange (trade deficit) requires export oriented projects or import substitution oriented projects

 Natural disaster such as drought, earthquake or flood requires resettlement projects and flood control projects like dam

General opportunity study or Macro study may be divided into the following three categories:

A. Area Study

A. Industry Study

B. Resource Based Study

A. ***Area Study:***

Area study is made to identify opportunities in a given area such as administrative province; a back ward region etc. and the following factors should be considered while making area studies.

i) Size of the area and physical features of the area.

i) Population occupational pattern, per capita income and social background

ii) Infrastructure facilities like transport, power, telecommunication etc.

iii) Exploited and unexploited factors of production and elements of production, mainly labor and capital and other natural resources.

iv) Labor laws, minimum wages, and holiday, facilities required in factory, bonus rules, and pension rules, working hours.

v) Level of completion

vi) Government concessions include, tax holidays, subsided power and water.

vii) Location of market, it covers nearness to domestic and international market.

viii) Export potential, if focuses on possibilities of export.

ix) Climate requirements for workers, companies, product etc.

x) Estimated cost of a project

xi) Availability of raw materials depends upon nature of the product.

xii) Availability of cheap labor.

***B. Industry Studies: (Sub Sector studies)***

These studies are made to identify opportunities in industrial branches like building material or food processing. The following factors are considered while making sub sector studies.

a. The rate of sub sector in the industry of the country.

b. Size and growth rate of industry.

c. Present size and growth rate of demands for items that are not imported and for those which are fully or partially imported for each item.

c. Rough projections of demand for each item.

d. Identification of the items in short supply that have growth or export potential.

e. A broad survey of raw materials; locally available.

f. Transport cost and available infrastructure facilities. Transport cost to bring raw material to factory, and to distribute finished goods to the wholesalers and retailers etc.

***C. Resource Based Studies:***

These studies are made to reveal opportunities based on the utilization of natural resources, agricultural or industrial products such as forest based, petrol chemical industries. The following are considered while making resource-based studies.

 Features of the resources (Size, shape etc.) past rate of growth (mainly agricultural) and potential for future growth.

 The role of the resources in the national economy in the country and export potential.

 Industry currently based on the resources (finished goods of the industry can be used as raw material to other industry). The growth of capital employed, labor engaged, productivity future plans and growth product.

 Major constraints and conditions in the growth of industries based on the resource.

 Estimate growth in demand and prospects of export items that could utilize the resources

***3.2.2 Micro Approach /Specific Opportunities studies / Enterprise Approach:***

The Micro Approach is mainly concerned with a review of investment ideas of industries, investment offices and financial institutions in both developing and developed countries. Specific project opportunity studies are concerned with the initial identification of general investment opportunities in the form of products with the potential form of domestic manufacture. A specific project opportunity study, which is more common than the general opportunity study, may be defined as the transformation of project into a broad investment position. The specific opportunity study should consider the following factors.

i) Natural resource available

i) Existing agriculture pattern

j) Future demand

k) Imports in order to identify area for import substitution

l) Environment impact

m) Possibilities for diversification.

n) The general investment climate

o) Industry policy Availability of cost of production factors

p) Export possibilities

q) Possible inter linkage with other industries.

**2.3 Opportunity Studies and Preliminary Screening**

By using the above methods a long list of project ideas can be developed. However, those projects that are not promising should be eliminated through a screening process. This preliminary screening weighs a project in terms of the following variables:

**Compatibility with the Promoter**

The idea should be compatible with the interest, personality and resources of the entrepreneur. A real opportunity should fit the personality of the promoter-abilities, training and priorities; accessible and offers a prospect of rapid growth and high return on invested capital.

**Compatible with Governmental Priorities**

The project idea should be within the government’s regulatory framework. In addition, it should be in line with the country’s goals to ensure its sustainability.

**Availability of Inputs** The resources and inputs required for the project must be reasonably assured. These inputs include: capital requirements of the project, technical know-how, raw materials, power and foreign exchange.

**Adequacy of Markets** The size of the market for the goods or services produced by the project must offer adequate sales volume. In this regard, both the current and predicted demand levels should be assessed. In general assessment of the market adequacy should consider:

 Total present domestic market

 Competitors and their market share

 Export markets

 Sales and distribution system

 Projected increase in consumption

 Barriers to entry

 Economic, social and demographic trends

 Patent protection

**Reasonableness of Costs** The cost of the proposed project should be commendable considering the benefits expected from it. The following costs are considered in this regard:

 Cost of material inputs and labor

 Factory overheads

 Administrative expenses

 Service costs and

 Economies of scale

**Acceptability of Risk Level** The desirability of a project is critically dependent on the risk characterizing it. The following factors are used in assessing the risk level of a project:

 Vulnerability of business cycle

 Technological changes

 Competition from substitutes and imports

 Government control over price and distributions

**3.4 Pre-feasibility Studies**

Since formulation of the feasibility study is costly and time consuming task, further assessment of the project idea is made in a pre-feasibility study. It is an intermediate stage between the project identification and a detailed feasibility study. The principal objectives of it are to determine:

 All possible project alternatives are examined

 The project concept justifies a detailed analysis of a feasibility study

 The project idea on the basis of available information should be considered either non-viable or attractive enough

 The environmental situation at the planned site and the potential impact of the projected production process are in line with national standards.

The difference between the feasibility study and the pre-feasibility study is in the extent of detail of the information obtained. The structure of the pre-feasibility study should be the same as the structure of the feasibility study. However, detailed review of the available alternatives must take place at this stage since it is costly and time consuming to do this in the feasibility stage. In particular, the review should cover the various alternatives identified in terms of:

 Project or corporate strategies and scope of the project

 Market and marketing concept

 Raw materials and factory supplies

 Location, site and environment

 Engineering and technology

 Organization and overhead costs

 Human resource

 Project implementation schedule and budgeting

In general, the pre-feasibility study involves subjective judgment of the project in terms of:

**Availability of an adequate market: -** judgments relating to the number of potential customers, needs of the customers, strength of the competitors, availability and access to sales and distribution network and export possibilities.

**Project growth potential: -** assessment of indicators on projected increase in the number of customers, increase in the rate of acceptance of the products, the general economic, social and political trend which could affect the growth potential of the project.

**Investment costs: -** Costs of raw materials transportation costs, distribution costs, labor costs, production costs and investment costs are usually considered. If the above costs are very high sustainability of the project is questionable.

**Demand and supply factors**:- This involves the projection of both short term and long term requirements of the project’s output and examining the implications of these on the project’s capacity. Many projects fail because they have started with a very large capacity only to operate at a much lower capacity. On the other hand, increasing the capacity of the project shortly after it starts operation is very costly.

**Social and environmental considerations: -** the project should also conform to the social considerations of the locality in which it is implemented. In addition; especially in industrial projects, due consideration should be given to the environmental effects of it on the surrounding.