**Chapter two**

**The Project Cycle**

* Project cycle is a sequence of events, which a project follows.
* These events, stages or phases can be divided into several equally valid ways, depending on the executing agency or parties involved. Some of these stages may overlap.
* According to World Bank, project cycle involves five stages; namely:

1. Identification

2. Project preparation and analysis

3. Appraisal

4. Implementation

5. Ex-post evaluation

 **Project cycle**

**2.1. Identification**

* The first stage in the project cycle is to find potential projects.
* Identification of promising investment opportunities requires imagination, sensitivity to environmental changes, and a realistic assessment of what the firm can do.
* In general there are four major sources from which ideas or suggestions for project may come: 1. Project ideas from technical specialists

 2. Project ideas from local leaders

 3. Project ideas from entrepreneurs

 4. Project ideas from government policy and plans

* At identification stage there could be a number of alternatives that could be examined.
* The identification of project ideas is based on several aspects of development.
* Need - a need assessment survey may show the need for intervention
* Market demand - domestic or overseas
* Resource availability - opportunity to make available resources more profitable
* Technology - to make use of available technology
* Natural calamity - intervention against natural calamity such as flood or drought
* Political considerations- Possible alternative project must be adequately assessed.
* Project identification is also concerned with elimination of inferior alternatives (project) from the identified ones.
* The output of this stage is projects that is prima-facie (at first sight or based on first impression) promising and further work is justified.

 **2.2 Project preparation and analysis phase**

* Once project ideas have been identified the process of project preparation and analysis starts.
* Project preparation is the most important stage in project planning. Preparation stage also called feasibility study is concerned with the detailed study of all aspects of the projects.
* Project preparation must cover the full range of technical, institutional, economic, and financial conditions necessary to achieve the project’s objective.
* Critical element of project preparation is identifying and comparing technical and institutional alternatives for achieving the project’s objectives.
* Different alternatives may be available and therefore, resource endowment (labor or capital) would have to be considered in the preparation of projects.
* Preparation thus require feasibility studies that identify and prepare preliminary designs of technical and institutional alternatives, compare their costs and benefits, and investigate in more details the more promising alternatives until the most satisfactory solution is finally worked out.
* **preparation and analysis phase** involves generally two steps:

 Pre-feasibility studies

 Feasibility studies

**2.2.1 Pre-feasibility Study**

* The identification process will give the background information for defining the basic concept of the project, which leads to the feasibility study stage.
* Once a project proposal is identified, it needs to be examined.
* As an introduction to the full blown feasibility study, this exercise is meant to assess
1. Whether the project is prima facie worthwhile to justify a feasibility study and
2. What aspects of the project are critical to its variability and hence warrant an in depth investigation.
* At the pre-feasibility study stage the analyst obtains approximate valuation of the major components of the projects costs and benefits.
* Some of the main components examined during the pre-feasibility study include:

  Availability of adequate market

  Project growth potential

  Investment costs, operational cost and distribution costs

* + Demand and supply factors; and Social and environmental considerations
* Using this preliminary data supplied by the various discipline specialists, a preliminary financial and economic analysis will be conducted.
* If the project appear viable from this preliminary assessment, the analysis will be carried to the feasibly stage.

**2.2.2. Feasibility Study**

* The major difference between the prefeasibility and feasibility studies is the amount of work required in order to determine whether a project is likely to be viable or not.
* If the preliminary screening suggests that the project is prima facie worthwhile, a detailed analysis of the marketing, technical, financial, economic, and ecological aspects will be undertaken.
* At this stage a team of specialists (Scientists, engineers, economists, sociologists) will need to work together.
* At this stage more accurate data need to be obtained and if the project is viable, it should proceed to the project design stage.
* The final product of this stage is a feasibility report.
* The feasibility report should contain the following elements:

 Market analysis

 Technical analysis

 Organizational analysis

 Financial analysis

 Economic analysis

 Social analysis, and

 Environmental analysis

**2.3 Appraisal**

* Appraisal is the comprehensive and systematic assessment of all aspects of the proposed project.
* The feasibility study would enable the project Analyst to select the most likely project out of several alternative projects. Selection follows, and often overlaps analysis.
* It addresses the question –is the project worthwhile?
* Wide ranges of appraisal criteria have been developed to judge the worthwhile of a project.
* They are divided into two broad categories,

 non-discounting criteria and

  discounting criteria.

* To apply the various appraisal criteria suitable cut off values have to be specified.
* The level of risk and risk analysis remains the most intractable part of the project evaluation exercise.
* This exercise also involves the undertaking of detailed engineering design; manpower and administration requirement as well as marketing procedures should be finalized.

**2.4 Implementation**

* After the project design is prepared, negotiations with the funding organization starts and once source of finance is secured implementation follows.
* Implementation is the most important part of the project cycle.
* It is the stage which the conclusions are reached and decisions made are put in to action.
* Some of the major activities in project implementation phase include:
* Detailed designs and specifications are drawn;
* Tender documents are prepared;
* Bid are invited and evaluated;
* Orders for imputes are placed;
* Contract are signed;
* workers are hired, trained and put to work ; and
* Materials are moved to sites etc.
* The better and more realistic in which the project plan can be carried out and the expected benefits realized.
* Project implementation must be flexible since circumstances change frequently.
* Technical changes are almost inevitable as the project progresses; price changes may necessitate adjustments to input and output.
* Delays in implementation, which are common, can lead to substantial cost overrun.

**2.5 Ex-post evaluation**

* The final phase of the project is the evaluation phase. Many usually neglect this stage.
* The project analyst looks carefully at the successes and failures in the project experience to learn how better to plan for the future.
* Ongoing projects could also be evaluated to rectify problems when the project is in trouble.
* In this stage it is important to examine the project plan and what really happened.
* Performance review should be done periodically to compare actual performance with projected performance.
* A feedback device is useful in several ways:

 (i) It throws light on how realistic were the assumptions underlying the project;

 (ii) It provides a documented log of experience that is highly valuable in future decision

 Making

 (iii) It suggests corrective action to be taken in the light of actual performance;

 (iv) It helps in uncovering judgment biases;

 (v) It induces a desired caution among project sponsors.