***1. Introduction to Project Planning***

##### In order to have a clear perception of the term project planning, it is important to know the concept of project and what makes project planning different from development planning.

* Hence, for your under standing of how it is help full to analyze and appraise projects, you need to know about the concept and its meaning. In this section you will study about the project planning and the concept of the project .
* At the end of this section, you will be able to:
	+ Understand the project concept

##### Differentiate project planning from development planning

* + Describe different aspects of project analysis
	+ Show the project cycle

**2**

# The project concept

##### The basic economic problem facing all countries all over the world is that of allocation inherently limited resources to a variety of different uses

* + - Given the limitation of resources, choices must be made among the competing uses, and project analysis is one method of evaluating alternatives in a convenient and comprehensible fashion.
		- **Project planning** has always been used as a means of checking the profitability of a particular investment by private firms.
		- Recent experiences show that project analysis has attracted the attention of development economists.→ did not necessarily amount to a new analytical discovery, rather to a new approach.
		- As a result, Projects are now assessed from the economy's viewpoint instead of only from the firm's perspective .

**3**

*Cont*….

* A **project** is a complex set of activities where resources are used in expectation of return and which leads itself to planning, financing and implementing as a unit.

##### + It is a proposal for an investment to create, expand and/or develop certain facilities in order to increase the production of goods/services/ during a certain period of time in a community, region, country, market area and/or certain organization

* A project usually has a specific starting and ending point intending to accomplish specific objectives.
* Projects usually have well defined sequence of investment and production activities and a specific group of benefits that can be identified .
* Projects also have boundaries, which make them distinguishable from each other.
* In assessing the merits of different projects, the objectives of any particular society clearly must be taken in to account

**4**

*Cont*….

**Development Planning Vs Project Planning**



* What do we mean by planning?

=Planning –

* + is the making of major economic decisions, such as the national income, income distribution, the saving rate, the investment rate etc.
	+ is the coordination of economic activities via conscious effort . It is a supplement to market forces. In most cases price signals are misleading as a result of this there should be a certain particular apparatus that coordinates economic activities in the economy.
	+ is a process of cognition and compromise. The very aim of planning is to compromise the different conflicting interests and to understand the desire of the economy by singling out social needs.

**5**

*Cont*….

* + is an institutionalized activity by, or on behalf of a certain authority for
1. the preparation of decisions and actions to be taken by the central authority
2. the coordination of decisions and actions by lower echelons of the economy and the central authority for governing the development of the entire economy .
* What does you think about the need for planning?

= Factors that have led to the adoption of panning in various countries profiled in to four broad heads

1. **Institutional requirements** - In a number of countries planning has been made use of to meet the institutional needs of their people. And plan production accordingly.
2. **Technological reasons**- The rational use of a new technology should be first of all planned before its operation . The modern technologies are such that their proper use is dependent up on the adoption of planning .

6

*Cont*….

The other important point for planning requirement is that technologies constantly changing, these give rise two sorts of problems : Modifying, changing or replacing existing capital goods; and providing for their fast depreciation . To meet these problems with the least cost to society, planning is needed.

1. **Economic considerations:** three kinds of arguments can be put forward.
2. The integration of the various segments of a modern economy needs planning.

e.g. To the effect of government policies both at the micro-level and the macro- level .

1. The second set of arguments relates to the deficiencies of market . There are always ups and downs in the world market ; because of this, nations or economies are obliged to use planning. Why?

=Market Mechanism is not in a position to generate fair distribution of income this resulted in the use of planning .

7

*Cont*….

1. The third set of reasons refers to the availability of useful economic knowledge as also planning techniques for a rational use of resources. These include the application of basic theoretical ideas to many fields. Generally, due to scarce resource.
* Now, we can distinguish project and development planning:
* Can you mention the difference between development planning and project planning?

=**Project** refers to an investment activity where resources are used to create capital assets, which produce benefits over time and has a beginning and an end with specific objectives. While, a **development planning** is an on going development effort or plan which may not necessarily be time bound.

**+** A development plan is a general statement of economic policy. A development plan is therefore, a wider concept than a project.

+ In other words, Project planning is an integral part of a more broadly focused and continuous process of development planning-

8

*Cont*….

+ This means dev’t planning or program may include one or several projects at various times whose specific objectives are linked to the achievement of higher level of common objectives. ***For instance***, a health program may include several projects:

 a water project as well as construction of health centers, both at improving the health of a given community.

* + What is the importance of project planning?

=There are different types of projects: public, private, private individual, small, large, agricultural, industrial , etc. E.g. ……. All these decisions involve a capital expenditure decision. Each of them can be analyzed and appraised reasonably independently.

=The basic characteristics of capital expenditure also referred to as capital investment or capital project.

= Thus, project planning is inevitable so as to make a correct capital investment decisions. The following points can be taken as the importance of project planning.

**9**

*Cont*….

* 1. to eliminate uncertainties
	2. to increase the effectiveness and efficiency of the operations.
	3. to identify and work towards a common goal.
	4. to establish a means of project monitoring and control .
	+ The **basic characteristics** that a project exhibits are
1. A project involves the investment of **scarce resources** in the **expectation of future benefits;**
2. **There are measurable Objectives** of a project. Projects have specific of benefits that can be identified , quantified and valued, either socially or

monetarily/commercially/

1. A project is the **smallest operational element unit** . A project can be planned, financed and implemented as a unit.- b/c a project is bounded by different factors( time, geographically, conceptually and organizationally) -make them distinguishable.

10

*Cont*….

1. **Uncertainty and risks** is inherent in any project. Achieving project objectives can not be predicted in advance with accuracy. The factors that make project risk are: the existence of scarce resource, generation of future benefit, etc.
2. Projects usually have **well defined** sequence of investment and production activities - it categorized into **definable tasks.**
3. It may require the use of **multiple resources** . And sensitive to the management

### Classification of Project

##### One can classify projects into :

1. ***Civil engineering, construction, related ;***
* These projects incur special risks and problems of organization and communication.
* They require massive capital investment and they require rigorous management of progress, finance and quality .

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*Cont*….

1. Manufacturing projects ;
* It involves, construction, procurement of soft - and hard-ware technologies/machinery & equipment/, installation, commissioning and start - up, initial employees training and commencement of operation.
1. **Management projects;**
* Operating enterprises do require introducing management projects, which needs project management capability. The products of such projects may not be tangible products.
1. Research projects
* These projects can involve large sum of money, lasting form many years and yet the result is less predictable than the other types of projects.
* The end result could be surprising, pleasing, disappointing or producing nothing.

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# The Project Cycle

## Introduction

* A **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.
* The project cycle can be explained in terms of five phases: Identification, Preparation and Analysis, review and approval /Appraisal, Implementation , and Evaluation . Figure- Project cycle.docx

## Identification (Opportunity studies )

* The first stage in the project cycle is to find potential projects . It is the identification of investment opportunities .

**13**

*Cont*….

* Project ideas can emanate from a variety of sources. In general, one can distinguish two levels where project ideas are born: The **macro level and the micro level**.
* At the **macro level**, project ideas emerge from:
	+ National policies and strategies
	+ National, sectoral, sub-sectoral or regional plans and strategies
	+ General surveys, resource potential surveys, regional studies, master plans, statistical publications .
	+ Constraints on the development process due to shortage of essential infrastructure facilities , problems in the balance of payments, etc.;
	+ A possible external thereat that necessitates projects aiming at achieving, for example, self sufficiency in basic materials, energy, transportation, etc.
	+ Unusual events such as draughts, f loods, earth-quake, hostilities, etc.;
	+ Government decision to create **project-implementing capacity** in such areas as construction , etc.
	+ **multilateral or bilateral** development agencies and agreements

14

*Cont*….

* At the **micro level**, project ideas may emanate from:
	+ The identification of unsatisfied demand or needs
	+ The existence of unused or underutilized natural or human resources and the perception of opportunities for their efficient use
	+ The need to remove shortages in essential material services, or facilities that constrain development efforts
	+ The initiative of private or public enterprises in response to incentives provided by the government .
	+ The necessity to complement or expand investments previously undertaken .
	+ The desire of local groups or organizations to enhance their economic status and improve their welfare, and
	+ Foreign firms response to gov’t investment incentives.

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*Cont*….

## Project preparation : Analysis and Appraisal phase

* Once project ideas have been identified and selected for further examination, the process of project preparation and analysis starts.
* Project preparation must cover the full range of technical, institutional, economic, and financial conditions necessary to achieve the project’s objective.
* 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.
* It involves generally three steps:
	+ Pre-feasibility studies
	+ Feasibility studies
	+ Support studies;
	+ Appraisal of studies

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*Cont*….

### Pre-feasibility Study (Pre-selection/ Preliminary Screening)

* Once a project proposal is identified, it needs to be examined.
* During preliminary selection, the analyst should eliminate project proposals that are technically unsound and risky, have no market for their output, have inadequate supply of inputs, are very costly in relation to benefits, assume over ambitious sales and profitability, etc.
* Some kind of preliminary screening is required to eliminate ideas, which prima facie, are not promising. For this purpose the following aspects may be looked into:
	+ Compatibility with the promoter
	+ Consistency with government priorities
	+ Availability of inputs
	+ Adequacy of market
	+ Reasonableness of cost, and
	+ Acceptability of risk level

**17**

*Cont*….

### Feasibility Study

* The major difference between the pre-feasibility 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 is undertaken .
* The focus of this phase of capital budgeting is on gathering, preparing, and summarizing relevant information about various project aspects (we will seen at the end of this section), which are being considered for inclusion in the capital investment .
* At this stage more accurate data need to be obtained

**18**

*Cont*….

* The feasibility report should contain the following elements (Aspects of project preparation and analysis ):
	+ 1. Demand and market Analysis
		2. Technical analysis
		3. Organizational analysis
		4. Financial Analysis
		5. Economic analysis
		6. Social analysis, and
		7. Environmental /Ecological analysis

### Support Studies

* This type of study is justified when a detailed study required for a specific aspect/input/ is too involved to be undertaken as part of the feasibility study.
* Alternatively, the decision towards undertaking a (Pre-) feasibility study could be

dependent upon the outcome of a support study .- as a pre requisites .

**19**

*Cont*….

### Appraisal of an investment Decision

* Thus project appraisal can be defined as a second look at the project report by a team of professionals, who were not participated in the preparation of the study but qualified and experienced to evaluate such studies.
* It is or should be an independent assessment of the project to identify the weaknesses and strengths of the study that have a bearing on the decision to invest, and/or to finance the project.
* Appraisal is the comprehensive and systematic assessment of all aspects of a project study, addressing particularly issues like:
	+ Specificity of objectives;
	+ Clarity of problems;
	+ Methodology: type and source and appropriateness of data collection techniques and analysis techniques;
	+ Project specific factors .
* The main objective is then to improve and revamp the project.

**20**

*Cont*….

* A wide range of appraisal criteria have been developed to judge the worthwhile of a project. They are divided into two broad categories, viz., **non-discounting** criteria and **discounting** criteria .

### Selection of projects/investment alternatives /

* Selection follows, and often overlaps, analysis
* It addresses the question:
	+ is the project worthwhile?
	+ Which of the projects is the best option from the existing competing once ?
* Project selection involves different factors and forces. It involves political, social and economic variables.
* Essentially, Political forces could exert significant pressure on the decision making process on the selection of projects from available alternatives .

**21**

*Cont*….

## Implementation/Investment phase/

* 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.
* Project implementation must be f lexible since circumstances change frequently (like: technical change, price of input & output, and political environment) .
* Translating an investment proposal into a concrete operational unit is a complex, time consuming and risk fraught task. To **protect delays** in implementation :
1. ***Adequate formulation of projects*** . A major reason for the delay is inadequate formulation of projects. ***–*** if necessary homework was not done.
2. ***Use of the principle of responsibility accounting*** . Assigning specific responsibilities to project managers for completing the project within the defined time frame and cost limits is helpful in speedy implementation and cost control . **22**

*Cont*….

1. **Develop project management competence: *Use of network techniques***. With the help of these techniques, monitoring becomes easier.
	* + In the implementation phase Monitoring and Risk assessment and management are also undertaken .
* ***Monitoring*** is a continuous process that aims primarily to provide project management and give the main stakeholders early indications of progress or lack of progress towards achieving project objectives.
* Projects often encounter ***risks*** during implementation . Managing risks by recognizing and preparing for a range of possible future outcomes is an integral part of project management . From source:
	+ Incorrect assumptions regarding project logic
	+ Dissatisfaction on the part of target beneficiaries
	+ Mismanagement ; and etc.

**23**

*Cont*….

## Project Evaluation

* The final phase of the project is the evaluation phase.
* **Evaluation** is a time-bound exercise that attempts to assess the relevance, performance and success of current or completed projects, systematically and objectively.
* Evaluation determines to what extent the intervention has been successful in terms of its impact, effectiveness, sustainability of results, and contribution to capacity development .
* Evaluation , more than monitoring, asks fundamental questions on the how and why of the overall progress and results of an intervention in order to improve performance and generate lessons learned.
* When carried out after project completion, evaluation can contribute to

extracting lessons to be applied in other projects.

**24**

*Cont*….

* A feedback device, it is useful in several ways:
1. it throws light on how realistic were the assumptions underlying the project;
2. it provides a documented log of experience that is highly valuable in future decision making;
3. it suggests corrective action to be taken in the light of actual performance ;
4. it helps in uncovering judgment biases;
5. it induces a desired caution among project sponsors.
* Evaluation is not limited only to completed projects . Ongoing projects could also be evaluated to rectify problems when the project is in trouble.
* The evaluation may be done by the project management, the sponsoring agency, or other bodies.

**25**

* 1. **Aspects of Project Preparation and Analysis**

 The project analyst must consider several aspects when carrying project analysis.

The major aspects of project preparation and analysis are :

1. Demand and market Analysis
2. Technical analysis
3. Institutional -Managerial -Organizational analysis
4. Social analysis
5. Financial Analysis
6. Economic analysis, and
7. Environmental /Ecological analysis

**26**

*Cont*….

## A) Demand and Market Analysis

* + - The study of demand and market analysis aspect need to ensure :

###### the existence of effective demand at remunerative price. and

the size of market which will absorb the output without affecting the price and if it does affect the price by how much.

* + - Similar arrangements need to be done on the input side too (including procurement of equipment and intermediate input supplies).
		- Market analysis is concerned primarily with two questions.
			* What would be the aggregate demand of the proposed product /service in future?
			* What would be the market share of the project under appraisal?

**27**

*Cont*….

* + - To answer the above questions, the project analyst requires a wide variety of

**information** and appropriate **forecasting methods**.

* + - The **kinds of information** required are:
			* Consumption trends in the past and the present consumption level.
			* Past and present supply position
			* Production possibilities and constraints
			* Imports and exports
			* Structure of competition
			* Cost structure
			* Elasticity of demand
			* Consumer behavior, intentions, motivations, attitudes, preferences, and requirements
			* Distribution channels and marketing policies in use
			* Administrative , technical, and legal constraints .

**28**

*Cont*….

* + - The market analysis is also concerned with the arrangement for marketing the output to be produced and the arrangement for the supply of input needed to build and operate the project.
		- Given the importance of market and demand analysis in project analysis it should be carried out in an orderly and systematic manner. Thus, The **key steps** in demand and market analysis are:
			* Situational analysis and specification of objectives
			* Collection of secondary information
			* Conduct of market survey
			* Characterization of the market
			* Demand forecasting

 Market planning

* + - Key steps in market and demand analysis and their inter -relationships are shown in Figure- Key steps of Mkt & DD analysis.docx

**29**

*Cont*….

* + - * **Situational analysis and specification of objectives**
		- In order to get a feel for the relationship between the product and its market, the project analyst may talk to consumers, competitors, middlemen , and other in the industry.
		- He/she may also look at the preferences and purchasing power of consumer’s, actions and strategies of competitors and practices of the middlemen/distributors, whole sellers and retailers / .
		- If such a situational analysis generates enough data to measure the market and get a reliable projection of the demand and revenues a formal study may not need to be undertaken .
		- In order to carry out such a study it is necessary to spell out its objective clearly and comprehensively.
		- A helpful way of spelling out the objectives would be to structure the objective in

the form of questions. Example-1.docx

**30**

*Cont*….

###  Methods of Data Collection

* There are two principal sources of assembling market information :

Secondary data sources

Primary data sources.

* The secondary sources will include the analysis of regular statistics and the study of the published results of previous surveys.
* Demographic, economic, financial and commercial statistics can collected from the following sources:
	+ Official sources: customs statistics, various kinds of fiscal and monetary statistics, statistical abstracts, etc.
	+ Trade groups: trade union and associations, chambers;
	+ Enterprises and government organizations who possess statistics for their own use.

**31**

*Cont*….

* In general there are several sources of information including census data, national sample survey reports, plan reports, statistical abstracts, industry specific sources of data etc.

### Methods of Estimating Future Demand

* There are many possible methods for estimating future demand for a product.
* In some cases a simple study of import statistics , possibly backed up by a survey among local consumers will give a fairly clear idea of the size of the future market
* In other cases it may be necessary to pursue the investigation further, possibly using advanced econometric techniques.
* Between these two extremes there exists a whole range of methods from which to choose, depending on:

The nature of the market studies;

The quality and quantities of the data available;

The degree of accuracy to be achieved.

**32**

*Cont*….

* The most commonly used methods include:
	+ Projection of the trend
	+ Using technical coefficients
	+ International comparisons
	+ Possibilities for export or for import substitution
	+ Econometric models
	+ Utilization of the result of family budget surveys
	+ Forecasting without statistical data
* It has to be noted that each of the above techniques are not mutually exclusive methods of projections. Rather if the case at hand and nature of data allows, one will have to adopt more than one technique.
* In fact, it is not unusual to find many studies which use simultaneously many techniques of estimating and forecasting.

**33**

*Cont*….

### Marketing Strategy

* Feasibility studies need to incorporate the design of a marketing concept, which should be based on proper marketing research. Marketing can be characterized by the following elements:
	+ ***Business philosophy:*** - marketing is a business philosophy that doesn’t focus on products or production , but puts the problems, needs and desires of existing or potential consumer groups at the center of the business activities of the firm.
	+ ***Marketing Research:*** - well-planned and systematic market and marketing related research is a precondition for market -oriented decision-making.
		- On the basis of information obtained about the potential market as well as the human, production and financial resources available for the project, marketing strategies are to be developed to ensure the achievement of the

project objectives.

**34**

*Cont*….

* ***Marketing Instruments : -*** the successful implementation of marketing strategies requires shaping and influencing the market in a well-planned manner, using the necessary combination or mix of marketing instruments .
	+ The marketing mix includes the analysis of distribution channels, Analysis of the strength and weakness of competitors , pricing policy, and the identification of appropriate promotion mix.

 Methods of demand forecasting

* The various methods of demand forecasting may be classified into three broad categories as follows:
1. Qualitative methods:
	* Jury of executive opinion method
	* Delphi method

**35**

*Cont*….

1. Time Series Projection Method
	* Trend projection method
	* Exponential Smoothing method
	* Moving Average method
2. Casual method
	* Chain ratio
	* Consumption level method
	* End use method
	* Leading indicator method
	* Econometric method
* Some of the most commonly forecasting methods are discussed here under.

**36**

*Cont*….

###  Jury of executive opinion method:

* This method, which is very popular in practice, involves asking the opinions of a group of managers on expected future sales and combining them into a sales estimate.
* The **advantages** of this method are:
	+ It is an expeditious method for developing a demand forecast
	+ It permits consideration of a variety of factors like econometric climate, competitive environment, consumer preferences, technological developments, and so on. To be included in the subjective estimates provided by the experts.
	+ It has vast call to managers who tend to prefer their judgment to mechanistic forecasting procedures.

**37**

*Cont*….

* The **disadvantages** of this method are:
	+ The biases underlying subjective estimates cannot be unearthed easily.
	+ The reliability of this technique is questionable

###  Delphi method

* This method is used for eliciting/evoke the opinions of a group of experts with the help of a mail survey.
* The **steps** involved in this method are:
* A group of experts are sent a questionnaire by mail and asked to express their views.
* The responses received from the experts are summarized without disclosing the identity of the experts, and sent back to the experts, along with a questionnaire meant to probe further the reasons for extreme views expressed in the first round
* The process may be continued for one or more rounds till a reasonable agreement emerges in the views of experts **38**

*Cont*….

* Delphi method appeals to many organizations for the following reasons:
* It is intelligible to users
* It has a fancy name
* It seems to be more accurate and less expensive than the traditional face to-face group meetings.
* While the Delphi method is appealing, there are certain question marks:
* What is the value of expert opinion?- due to answering for questions.
* What is the contribution of additional rounds and feedback to accuracy?

###  Trend Projection Method

* The trend projection method involves determining the trend of consumption by analyzing the past consumption statistics and projecting future consumption by extrapolating the trend.

**39**

*Cont*….

* Various trend relationships could be identified including the following :
* Linear relationship : Yt = a + bT

Where Y is the variable to be forecasted and T is to be estimated .

* Exponential (Semi-log) relationship : Yt = aebT or lnY = lna + bT

This method assumes that there is a constant growth rate b within each period.

* Polynomial relationship : Yt = a0 + a1t + a2t2
* Cobb Douglas Relationship : Yt = atb

###  Exponential Smoothing Method

* In exponential smoothing forecast are modified on the light of observed errors.
* If the forecast value for year t, St, is less than the actual value for year t, the forecast for the year t+1, Ft+1, is set higher than Ft.
* If Ft >St is set lower than Ft.

**40**

*Cont*….

* In general:

Where:

Ft+1 = Ft + aet Ft= forecast for year t+1

α= Smoothing parameter (which lies between 0 and 1)

et= error in the forecast for year t = St − Ft



###  Consumption Level Method

* Consumption Level Method is useful for a product, which is directly consumed.
* This method estimates consumption level on the basis of elasticity coefficients , the important ones being the income elasticity of demand and the price elasticity of demand.

**41**

*Cont*….

###  End-Use Method

* This method is suitable for estimating the demand for intermediate products.
* This method also referred to as the consumption coefficient method,
* It involves the following steps:
* Identify the possible uses of the product
* Define the consumption coefficient of the product for various uses
* Project the output levels for the consuming industries
* Drive the demand for the product

**42**

*Cont*….

## Technical Analysis

* Analysis of the technical and engineering aspects of a project needs to be done continually when a project is formulated .
* The technical analysis is concerned with the projects inputs (Supplies) and outputs of real goods and services and the technology of production and processing.
* Technical study of a project provides the technical basis for all other aspects of a project study, since a technically unfeasible project cannot be promoted.
* The main and challenging task in this technical analysis is to identify the appropriate technology for the objective the project is intended to meet.
* This is crucial because the rest of the project analysis cannot be conducted without information from the technical study.

**43**

*Cont*….

* Can you mention the important points that the technical analysis is primarily concerned with?

= In general the technical analysis is primarily concerned with:

* + Material inputs and utilities –- the availability of raw materials, power and other inputs. - availability in type, quality &quantity.
	+ The production process & technology- the selection of appropriate equipment and machines/technology .
	+ Plant capacity-volume or number of units that can be produced in a given period
	+ Location and site -determine the location and site suitable for the project (suitable in raw material, market access, infrastructure, Env’t, culture, etc.)
	+ Structure and civil works/engineering - cost & time plan for engineering activities
	+ Project charts and plant layouts -After selection of technology- the chart reflect the interrelationship b/n different aspects (env’t, socioeco’c, technology, I+O f low, etc.)
	+ Work schedule – time breakdown for each activities of the project.

**44**

*Cont*….

## Institutional -Organizational -Managerial Aspects

**+ Institutional**

* This basically incorporates the socio-cultural patterns and institutions or the population that the project is believed to serve.
* It addresses the question:
	+ Does the project takes into account the cultural setup and customs of the beneficiaries ?
	+ Or will it disturb the accepted pattern?
	+ If so how should this be included as part of the project design?
* A project must be related properly to the institutional structure of the country or region where the project is to be carried.
	+ Examples include the land tenure system, use of local institutions such as like Idir.

**45**

*Cont*….

## + Managerial

* Similarly, managerial issues are critical for successful completion of projects.
* Thus, the project analyst must examine the ability of available staff to identify whether they have the capacity to carry out the managerial needs of the project.

## + Organizational

* Organization is the means by which the operational functions and activities of the enterprise are structured and assigned to organizational units.

 with the objective of coordinating and controlling the performance of the enterprises and the achievement of its business targets.

* The organizational structure of an enterprise indicates the assignment of responsibilities and delegation of authorities to the various functional units of the company.

**46**

*Cont*….

* The organizational structure of the company can also take a number of shapes, the most common being the **pyramid shape**, Which has the following three organizational levels:
	+ Top management
	+ Middle management, and
	+ Supervisory management

## Social Analysis

* This aspect is more important to public projects.
* In this case, project analysts are expected to examine the broader social implications of the proposed project.
* Sufficient attention should be given to the social soundness of a project.

**47**

*Cont*….

* This is particularly related to the:
* The attitude and the likely response of the beneficiary groups;
* The existence of potential implementation capacities or organization within communities ;
* The cultural factors related to the implementation and outcomes of the project;
* The political factors;
* Income distribution implications of the project,
* Employment creation: income distribution could be related to employment creation.
* Issues of balanced regional development,
* The displacement impact of the project (the sugar plantations around Omo valley displacement is a good case in point);
* The gender implication of the adopted technology;
* Environmental impacts etc.

**48**

*Cont*….

## Financial Analysis

* Financial analysis seeks to ascertain whether the proposed project will be financially viable in the sense of being able to meet the burden of servicing debt
* And whether the proposed project will satisfy the return expectations of those who provide the capital/finance .
* Aspects which have to be looked in conducting financial appraisal are:
	+ Investment out lay and costs of the project
	+ Means of financing
	+ cost of capital -interest rate
	+ projected profitability
	+ Break-even point
	+ cash f lows of the project
	+ Investment worthwhileness judged in terms of various criteria of merit
	+ Projected financial position
	+ Level of financial risk. **49**

*Cont*….

* Here, the project analysts is concerned with the financial effects of the proposed project on each of its various participants (firms, framers/workers, government etc.).
* By examining the financial implications for these parties the analysts need to identify the projects financial efficiency, incentive impact to the participants in the project, creditworthiness and liquidity (say, could firms have enough working capital?) .

## Economic Analysis

* The economic aspect of project preparation is primarily concerned with the determination of likelihood of the proposed project,
* and hence the committing of scarce resources, by justifying the significance of the project from the whole economy point of view (the society as a whole).
* In such evaluation the focus is on the social costs and benefits of a project, which may often be different from its monetary costs, and benefits.

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*Cont*….

* + The following aspects have to be looked into while conducting economic appraisal:
		- The direct economic benefits and costs of the project measured in terms of shadow (efficiency) prices and not in terms of market prices.
		- The impact of the project on the distribution of income in the society
		- The impact of the project on the level of savings and investment in the society
		- The contribution of the project towards the fulfillment of certain merit wants like self Sufficiency, employment, and social order.

**Financial Analysis Vs Economic Analysis**

* + The financial analysis views form the participants (or owners) point of view, while the economic analysis form the society’s point of view.
	+ There are **three** important distinctions between the two types of analyses.

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*Cont*….

#### Treatment of taxes and subsidies:

* + - These items are treated as **transfers** in the economic analysis while in financial analysis taxes are usually treated as **cost** and subsides are treated as return **income**.
		- The reason for this distinction is basically the point of view (society as opposed the firm).

#### Treatment of interest on capital:

* + - In economic analysis, interest on capital is never separated and deducted from the gross return since it is part of the return from capital, which is available for the society as a whole.
		- Such interest is deducted from benefit stream in financial analysis whose point of view is the firm and hence interest is a cost to the firm.

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*Cont*….

* 1. Use of prices:
		+ In the financial analysis we sill use actual market prices.
		+ In economic analysis the market prices are adjusted to accurately reflect social and /or economic values.
		+ The latter prices are termed as shadow prices or accounting prices or economic prices.

## Environmental/Ecological/ Analysis

* + In recent years, environmental concerns have assumed a great deal of significance .
	+ Ecological analysis should be done particularly for major projects, which have significant ecological implications
		- like power plants and irrigation schemes, and environmental -polluting industries .

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*Cont*….

* + The key questions raised in ecological analysis are:
		- What is the likely damage caused by the project to the environments?
		- What is the cost of restoration measures required to ensure that the damage to the environment is contained with in acceptable limits?

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