**CHAPTER THREE**

**PROJECT IDENTIFICATION**

**3.1. Introduction**

Project identification is the process of searching for and subsequently finding potential projects that might be realized to generate benefits in excess of costs that accrue to the society and contribute towards the attainment of development objectives. The generation of promising investment (and/or project) ideas is among the major stages in the project cycle. It is the first stage in the project planning process.

Project identification is made in rather general terms with broader scope at the first glance and then, the idea will be progressively developed. According to the UNIDO model, opportunity studies and/or assessments of existing investment opportunities are considered very essential and hence, should precede the task of identification. Opportunity studies generally provide useful insights about possible/potential areas for investments. Generally speaking, a range of alternative project ideas needs to be considered, and even alternative versions of the same project may be conceived.

**3.2. Project Identification**

The search for promising project ideas is the first step towards establishing a successful venture. The key to success lays in getting into the right business at the right time. The objective is to identify investment opportunities, which are prima facie feasible and promising and merit further examination and appraisal.

Project identification is the process of finding projects that could contribute towards achieving specified development objectives. In principle, project identification should be an integral part of the macro-planning exercise, with sector information and strategies being the main sources of project ideas.

In practice, projects often are not derived from national and/or sector plans, however. Instead, projects may originate from several sources. Irrespective of their origin, project ideas generally should aim at overcoming constraints on the national development efforts (be it material, human, or institutional constraint) or at meeting unsatisfied needs/demand for goods and services. The prevailing constraints, needs, and demands should be interpreted broadly to include, for instance, foreign exchange constraints that might indicate the need to undertake projects for export promotion or import substitution.

**3.3. Sources of Project Ideas**

* Macro Sources of Project Ideas
* Micro Sources of Project Ideas

Among the various institutions and sources, the following macro sources are considered the major ones in order to generate project ideas, especially in developing countries:

* Federal/Central or Regional Governments;
* Bilateral and Multilateral Agreement; and
* International Development Agencies

In general, in developing countries, the government remains to be the major source of project ideas. The following are presumed to be the major reasons for governments to be important sources of project ideas in developing nations:

* They often have the necessary resources for undertaking opportunity studies;
* They do also have unlimited access to data & information;
* They do have the required facilities to conduct survey, studies, and reviews;

Moreover, such governments are fully familiar with the development objectives, priorities, and strategies.

* In this regard, the development goals, priorities, and strategies often are not clearly communicated to groups (individuals and/or institutions) at micro-level.
* The development goals in such contexts also seem to be ambiguous to groups at the micro-level and/or may not be consistent with the interests of local groups.

Specifically, project ideas often emanate from the following macro sources:

* National policies, strategies, and priorities as may be enunciated (or articulated) by government from time to time.
* National, sector, sub-sector, or regional plans and strategies supplemented by special studies, called opportunity studies, conducted with the explicit aim of translating national, sector, sub-sector, and regional programs into specific projects.
* General surveys, resource potential surveys, regional studies, master plan and statistical publications, which indicate directly or indirectly investment opportunities.
* Constraints on the development process due to shortage of essential infrastructure facilities, problems in the balance of payments, etc.
* Government decisions to correct social and regional inequalities or to satisfy basic needs of the people through development projects
* A possible external threat that necessitates projects aiming at achieving, for example, self-sufficiency in basic material, energy, transportation, etc.
* Unusual events such as droughts, floods, earthquake, hostilities, etc.

**Micro Sources of Project Ideas**

Apart from the macro sources for generating project ideas, there are diverse kinds of institutions and/or economic entities that are considered micro sources of project ideas. The following are among the major micro sources of investment (or project ideas):

* Private and Public Enterprises;
* Local Groups or Organizations;
* Consumer Groups and Associations;
* Financial Institutions/Credit Associations;
* Cooperatives, Farmers’ Unions, etc;
* New Technology Suppliers and so on.

In general, project ideas that emanate from the micro-sources are obtained (and/or generated) based on one or many of the following conditions:

* 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 materials, 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;

**3.4. Who Identifies Projects?**

There are quite large number of institutions and/or groups that often identify investment opportunities (or generate project ideas) in the society. These entities may be private firms, public enterprises, government units, local or international development agencies, financial institutions, as well as profit seeking or not-for profit organizations. Listed below are the major groups that are involved, by large, in the identification of projects in the society:

* Local and/or international NGOs;
* Large scale individual private sector producers;
* Product marketing organizations;
* Private sector companies (local/multinational);
* State owned enterprises & organizations;
* Development banks (local as well as foreign);
* Small producers organizations/producers’ unions;
* Government ministries, authorities, agencies, and commissions;
* International development agencies, aid agencies, and self-aid associations;
* Local governments and state, regional, and sub-regional authorities;
* Local political & pressure groups such as opposition parties;
* Credit institutions (such as credit unions, savings and loan associations, saving banks, commercial banks) and cooperatives; and so on.

**3.5. Project Identification Studies and Process of Idea Generation**

 **Identification Studies**

When we are more concerned about project identification, the formal task of conducting identification studies, (opportunity studies), is one of the best available option to project planners, which is critically important to generate and/or come up with useful information.

**Objective of Identification Studies:**

The major objective of identification studies is to collect sufficient data and/or generate beneficial information concerning the background, technical, economic, social, and environmental aspect of a potential project.

In general, there are four approaches for conducting project identification studies. These are area studies, industrial studies, resource-based studies, and sector studies. In this regard, each of the approaches focuses on relatively unique aspects and pay attention to some important variables (or considerations). One may follow any one of these approaches depending on the appropriateness for the type of project being pursued and the significance it has to the concerned.

Exhibit 3.1 depicts the main approaches for project identification studies together with the relevant aspects to be assessed and the major considerations therein.

Exhibit 3.1: Project Identification Studies

|  |  |  |
| --- | --- | --- |
| Approaches | Aspects | Considerations |
| Area Studies | * Identification of opportunities in a given area such as localities, regions, states, etc.
 | Backward (less developed and or Marginalized areas.) |
| Industry Studies | * Identification of opportunities in the industrial sector.
* Specific marketable product
* Diversification opportunities
* Import substitution and export possibilities; etc.
 | Development plans&programs;investment policies;economic policies; and industrial policies. |
| Resource- Based studies | Opportunities in exploiting natural resourcesNatural resource analysisImport substitution;Export possibilities | Resource allocation &utilization policies; industrial policies; and other policies &priorities. |
| Sector Analysis/ Studies | Satisfaction of social needs/removing sector problems:* Agriculture sector,
* Manufacturing sector,
* Health sector,
* Education sector,
* Service sector, etc.
 | Sector strategies; sector priorities;existing unsatisfiedneeds; sectordevelopment level;etc. |

**Project Idea Generation Process**

The aspects indicated in 1 through 7 below more or less explain the process of generating project ideas.

1. **Survey & Review of Endowments and Facilities (Infrastructures):**

Surveying, reviewing, and analyzing existing policies, resource endowments, and socio-economic variables.

* Natural Resources: review of the natural resource endowments of the country.
* Human Resource: review of educational standards and facilities.
* Socio-Economic Variables: review of various socio-economic factors. This, among others, includes: Housing facilities & standards; Utilities services; Health and nutrition services; and Income distribution.
1. **Field Survey and Interview:**

This includes asking people regarding what goods or services they want, which helps to identify if any unsatisfied need exists. It also involves:

* Obtaining information about their existing problems may be through directly asking them (i.e. people about what their problems are).
* Asking the public unit closest to the people at the grass-root level about their problems and/or needs (asking him/her what the community needs/what the people need).
1. **Observing and Analyzing Prevailing Situation:**

Observation and analysis of the prevailing situation is also an important means in order for generating project ideas. This includes:

* Observation & examination of current demand & supply situation for goods/services;
* Examination of past & future consumption/production trends for goods and services;
* Observing possibilities for improvement of goods and services (both in terms of quality & quantity);
* Observing opportunities & threats in the invention & introduction of new technologies, etc.
1. **Participating in Deliberations, Discussions, and Trainings:**

Participating in various discussion forums and deliberations made in seminars, workshops, and conferences (both local and international) are believed to be important for generating useful investment ideas.

* Meeting at different levels within the organization;
* Educational & training programs; and the like.
1. **Brainstorming:**

Brainstorming is also an important means for generating project ideas. In brainstorming sessions, a group of people suggests different ideas regarding future activities very quickly before analyzing and/or considering the source of the idea more carefully. Brainstorming is essential before detailed analysis of an idea of a project as well as before detailed planning.

1. **Exposures to Publications & Media:**

Reading various publications (scientific or otherwise) and exposures to different communication media is essential for generating project ideas. This may include:

* Print media such as journals, books, magazines, newsletter, news papers, etc;
* Audio-visual media (discussions and reports on radio, TV, etc); and
* Visual media (cinema, video, etc).
1. **Informal Discussions and Meetings:**

In addition to the above aspects, it is also useful to take note of ideas thrown in informal (or non-formal) discussions and meetings.

This also includes exchange of ideas in friendship/fraternal gatherings and get-togethers.

In a nut shell, all the above aspects and/or procedures might eventually lead to the generation of project ideas about which we develop feeling of feasibility. The individual(s) or entities generating the idea(s) develop a kind of feeling that the identified project(s) might be feasible candidate(s) for further and more detailed analysis, appraisal, and implementation.

Therefore, the feeling of feasibility is a good basis for identification of potentially promising projects that worth considering. Eventually, the project idea generated becomes an eligible candidate for further study and preparation. Such ideas need be thoroughly analyzed and assessed based on tangible facts and data.

**Approaches to Project Idea Generation**

Broadly speaking, project ideas are said to be generated through one of the following two approaches: Top – Down (Macro) Approach or Bottom – Up (Micro) Approach. Each of these approaches is discussed next.

**Top–Down Approach**

It is an approach whereby individuals at the micro level, or grass root level, are not involved in the process of project idea generation.

* Projects are identified at higher planning (or macro) level and implemented at the decision of officials at the top.
* It is based on the national plan and strategies.

The Government need not go down because the problem might be understandable. However, such projects may not relate to the existing reality in particular vicinity and hence, might encounter resistance and/or implementation constraints, as the people in the context might lack interest to cooperate with.

In general, the top-down approach for project idea generation helps to identify implementation entities at given local area that may or may not be consistent with the needs in the context. In other words, such projects have long-term orientations that, perhaps, need not necessarily be compatible with the existing reality in the locality.

 **Bottom–Up Approach**

A bottom – up idea generation process requires base line surveys, which is based on the realities existing in different localities.

* Such projects might be easy to implement (or realize) due to their fitness to the realities in a given context.
* May get community support, successfully implemented, and the potential benefits might easily be visualized (seen) by the society. This may help to create good will and positive images towards the institution.

**Problems in Project Identification**

a. Ambiguity regarding the Development Goals (Objectives) of the nation:

* People may not clearly identify the national development goals.
* The development goals may not be well communicated, may not be in the best interests of some groups, or may not get full-hearted acceptance from the public.

b. Priority Issues in the Existing Development Goals (Objectives):

* Conflict of views regarding the development priorities and goals set (that might entail lack of interest & commitment).
* Differences in views regarding critical aspects of national priority.
* Differences in prioritizing sector goals & objectives.

c. Limited Data and Obstacles in Information Flow and accessibility:

* Problems in data and information flow;
* Constraint (bottleneck) for accessing data;
* Limited availability of data & information;
* Data may not be dependable (reliable) for use; and so on.

d. Conflict of Interest between Local Beneficiary Groups [as some group(s) might bear the cost while benefits accruing to others].

* What are the costs & benefits of identified projects?
* Who bears the costs & benefits in the society?
* Is benefits accruing to other groups while the cost paid by a given local group (unit)?
* Find mechanisms to compensate those bearing the costs.
* Unless compensated otherwise, the consequences might be unfavorable, severe, and costly as well.

**Project Concepts and Profiles**

Once a project idea has been conceived, the next stage is to describe the idea so that it can be prioritized and move on to the next stage in the process. ***This may involve the preparation of a project identification report or project concept or profile***. Whenever it is developed it is essential to have a clear idea of what the proposed project is supported to be and what are hopes to achieve. It should include answers to the questions given in the following box.

**Questions and Project Profile or Concept**

***Justification and Purpose***

* What goal is the project contributing to?
* What is the purpose of the project, what does it intend to achieve?
* What problem is the project addressing?
* What is the justification of the project?
* What demands, needs or opportunities is the project addressing?

***Beneficiaries and Stakeholders Best regards*,**

* What will benefit from the project?
* Who has a share or s take in the project?
* How have project beneficiaries and other stakeholders participated in the identification of the project?
* Which institutions are the targets of the project?

***Resource and Institutions***

* What potential resources may be available for implementing the project?
* Which organizations are to be involved in project planning and implementations?

***Policies and Plans***

* How does the project proposal fit into any sector or regional plans?
* Does the project fit into current policies?

***Impacts***

* What are the likely major positive and negative social impacts of the project?
* What are the likely positive and negative environmental impacts of the project?

***Support***

* What is the level of political and administrative support for the project?
* Does the project have the support of beneficiaries and/or local communities?

***Risks***

* What are the chances of the project achieving its objective?
* What are the main risks associated with the project?
* What assumptions have been made, e.g., what support is needed for others?

**Identification of Commercial Project Ideas**

The following are undertaken when ideas are identified for commercial or industrial projects

1. Generation of Ideas

2. Monitoring the Environment

3. Corporate Appraisal

4. Scouting for Project Ideas

5. Preliminary Screening

6. Project Rating Index

**1. Generation of Ideas**

***SWOT Analysis***: This represents a conscious, deliberate, and systematic effort by an organization to identify opportunities that can be profitability exploited by it. Periodic SWOT analysis facilitates the

generation of ideas.

***Clear Articulation of objective***: A clear articulation and prioritization of objectives helps in channeling the effort of employees and prods them to think more imaginatively.

***Fostering a conducive climate***: To tape the creativity of people and harness their entrepreneurial urges, a conducive organizational climate has to be fostered.

**2. Monitoring the Environment**

Basically a promising investment idea enables a firm (or entrepreneur) to exploit opportunities in the environment by drawing on its competitive strengths. Hence, the firm must systematically monitor of

environment and assesses its competitive abilities. The important aspects studied in monitoring the key sectors of the environment are as follows:

***Economic Sector:*** State of the economy, Overall rate of growth, cyclical fluctuations, Inflation rate, linkage with the world economy, Trade surplus/deficits, balance of payment situation

***Governmental Sector*:** Industrial policy, government programmers and projects tax framework, subsidies, incentives, and concessions, import and export policies, financing norms, lending conditions of financial institutions and commercial banks

***Technological Sector***: Emergences of new technology, access to technical know-how, receptiveness on the part of industry

***Socio-Demographic Sector***; Population trends, age shifts in population, Income distribution, educational profile, attitude toward consumption and investment

***Competition Sector*:** Number of firms in the industry and the market share of the top few (four or five); entry barriers; comparison with substitutes in terms of quality, price, appeal, and functional

performance; marketing policies and practices

***Supplier Sector*;** Availability and cost of raw materials and sub –assemblies; availability and cost of energy; etc

**3. Corporate Appraisal (analysis of internal situation of the firm)**

A realistic appraisal of corporate strengths and weaknesses is essential for identifying investment opportunities which can be profitably exploited.

**4. Scouting for Project Ideas**

Good project ideas – the key to success are elusive so a wide variety of sources should tap to identify them. Here are some suggestions in this regard.

a. ***Analyze the Performance of existing Industries*:** A study of existing industries in terms of their profitability and capacity utilization is helpful. This may indicate promising investment opportunities – opportunities which are profitable and risk – free.

b. ***Examine Inputs and Output of Various Industries*:** Investment opportunities exist when: Materials, purchased parts, or supplies are presently being procured from distance sources with attendant time lag and transaction cost, Several firms produce internally some components/parts which can be supplied at a lower cost by a single manufacturer who can enjoy economies of scale.

c. ***Review Imports and Exports:***An examination of export statistics is useful in learning about export possibilities of various products.

d. ***Study plan outlay and Governmental Guidelines:***Government’s proposed outlays in different sectors provide useful pointers toward investment opportunities. They indicate potential demand for goods and services required by different sectors.

e. ***Investigate availability of Local materials & Resources*:** A search for project ideas may begin with an investigation into local resources and skills.

f. ***Analyze Economic and Social Trends*:** A study of economic and social trends is helpful in projecting demand for various goods and services. Changing economic conditions and consumer preferences provide new business opportunities.

g. ***Study New Technological Development*:** New product or new process and technologies for existing products developed by research laboratories may be examined for profitable commercialization.

**5. Preliminary Screening**

By using the suggestions made in previous sections, it is possible to develop a long list of project ideas. 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*:** The ideas must be compatible with the interest, personality, and resources of entrepreneur.

***Consistency with government Proprieties*:** The project idea must be feasible given the national goals and governmental regulatory framework.

***Availability of Inputs*:** The resources and inputs required for the project must be reasonably assured.

***Adequacy of the Market***: The size of the present market must offer the prospect of adequate sales volume. Further, there should be a potential for growth and reasonable return on investment. To judge

the adequacy of the market the following factors have to be examined.

* Total present domestic market
* Competitors and their market share
* Export market
* Sales and distribution system
* Projected increase in consumption
* Barriers to the entry of new units

***Reasonableness of Costs***: The cost structure of proposed project must enable it to realize an acceptable profit with a competitive price. The following should be examined in this regard:

* Cost of material inputs
* Labor cost
* Factory overheads
* General administration expense
* Selling and distribution costs
* Services costs
* Economics of sale

***Acceptability of Risk Level***: The desirability of a project is critically dependent on the risk characterizing it. In the assessment of risk – a difficult task, indeed – the following factors should be considered:

* Vulnerability of business cycle
* Technological changes
* Competition from substitutes
* Competition from imports
* Governmental control over price and distribution.

**6. Project Rating Index**

When a firm evaluates a large number of project ideas regularly, it may be helpful streamline the process of preliminary screening. For this purpose, a preliminary evaluation may be translated into a project rating index. The steps involved in determining the project rating index are as follows:

1. Identify factors relevant for project rating
2. Assign weights to these factors (the weights are supposed to reflect their relative importance).
3. Rate the project proposal on various factors, using a suitable rating scale (Typically a 5 – point scale or a 7 – point scale is used for this purpose.)
4. For each factor multiply the factor rating with the factor weight to get the factor score.
5. Add all the factor scores to get the overall project rating index.

**Examples of Criteria for Ranking Project**

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| **Extent**• Number of people and Geographic area affected by the project-More people affected means the project will be given more weight**Economic and Financial**• Potential financial and economic benefits to the country or region and individuals.**Environmental; Impact of the project on**• Conservation of natural resources and more sustainable land use• Protection of natural resources (e.g., forests)**Social;**• Contribution of the project to Poverty alleviation and Assistance to disadvantage groupsPolicy Is the project in line with national policies**Resources;**Availability of human resources to implement project• Likely availability of funding from government, etc**Success or Failures;**• What are the chances of the project successfully meeting its objectives? What degrees of the risks are associated with the project that may affect its implementation?**Support**• Political support for project• Community support and demand for project. |

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| --- | --- | --- |
|   |   | Projects |
| Prioritization Criteria | weight | Paper production factory  | Flour Factory | Milk mixing factory |
| Geographical coverage /extent/ | 0.05 | 2 | 5 | 3 |
| Economic & financial benefit to the country  | 0.2 | 3 | 2 | 5 |
| Environmental effect | 0.1 | 4 | 1 | 4 |
| Contribution to poverty alleviation /Social/ | 0.15 | 5 | 2 | 4 |
| Availability of resource | 0.15 | 1 | 2 | 2 |
| Successfulness of project idea | 0.25 | 6 | 5 | 2 |
| Political community & demand support of a project | 0.1 | 2 | 4 | 3 |
|   |   | 3.7 | 3 | 3.25 |
| Rating |  |  |  |  |
| Very high 5 |  |  |  |  |
| High 4 |  |  |  |  |
| Medium 3 |  |  |  |  |
| Low 2 |  |  |  |  |
| Very low 1 |  |  |  |  |