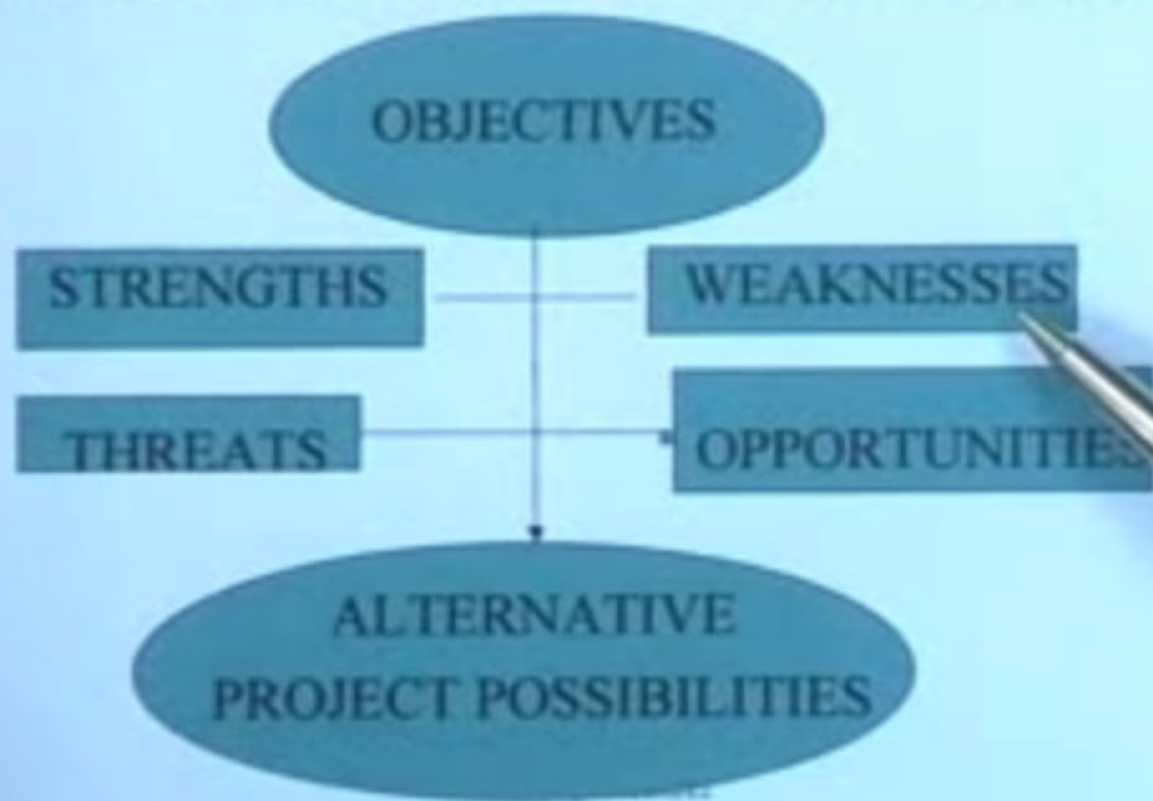


PROJECT SELECTION

- Project Identification
- Project Appraisal
- Project Selection



PROJECT IDENTIFICATION



SEARCH NEW IDEAS

- What are the objectives?
- Brainstorm to generate alternative solutions.
 - Emerging market trends.
 - SWOT analysis.
 - Other constraints
- Shortlist candidate ideas for detailed scrutiny.

OBJECTIVES

- To increase profits
- To minimize threats of losses
- To become more competitive
- To provide help after a disaster
- To train people in a new area
- To reduce pollution in Delhi

STRENGTHS

- Experience and expertise
- Financial position
- Capital raising capability
- Industrial contacts
- Foreign collaborations

WEAKNESSES

- Newer unfamiliar technologies
- Inability to raise huge investments
- Lack of experience
- Lack of trained personnel
- Inability to forecast market trends

OPPORTUNITIES

- Emerging technologies
- New products with new markets
- New processes with better features
- Special financing schemes
- Government and other incentives

THREATS

- Competitors
- Poor state of the economy
- Outdated technology
- Unprofessional management skills
- New products and services

SOURCE OF NEW PRODUCT IDEAS

- Marketing and sales department
- Research & Development
- Top management
- Production department
- Consumers

BRAINSTORMING

- A good means to generate new project ideas
- Focus on uninhibited participation by a group
- Listing of ideas without suppressing creativity at source
- List of ideas subjected to screening and evaluation subsequently

SCREENING OF IDEAS

- Poor Fair Good Vgood Excellent
- (1) (2) (3) (4) (5) Weight
- Cost (2) 20%
- Risk (3) 30%
- Return (4) 40%
- Hazard (2) 10%
- (score = $0.2 + 3 \times 0.3 + 4 \times 0.4 + 2 \times 0.1 = 3.1$)

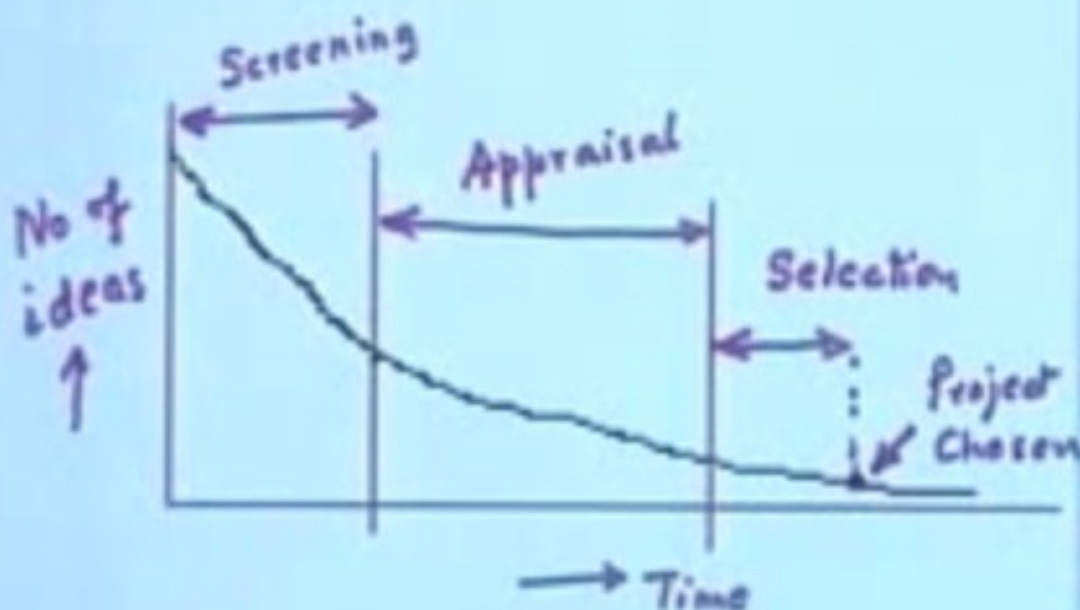
CRITERIA IN SCREENING PROJECTS

- Investment
- Rate of return
- Risk
- Likely profit
- Payback
- Similarity to existing business
- Expected life
- Flexibility
- Environment impact



• Competition

MORTALITY OF NEW PROJECT IDEAS



REDUCE VEHICULAR POLLUTION IN DELHI

- 1 Restrict registration of new vehicles
- 2 Enforce strict emission regulations for vehicles
- 3 Ban diesel run vehicles on road
- 4 Introduce MRTS for the city
- 5 Encourage use of car pools
- 6 Grow more trees/ green belts in the city

REDUCE VEHICULAR POLLUTION IN DELHI-II

- 7 Declaring no traffic zones in the city
- 8 Ban vehicles with an age of ten or more years from plying on the roads
- *These and more ideas could be generated through a Brainstorming exercise*

SCREENING OF IDEAS

- Criteria chosen for screening:
 - Effectiveness to achieve objective
 - Cost of the proposal
 - Ease of implementation
 - Time needed
- *This is an illustrative list. Other criteria could be added, if needed.*

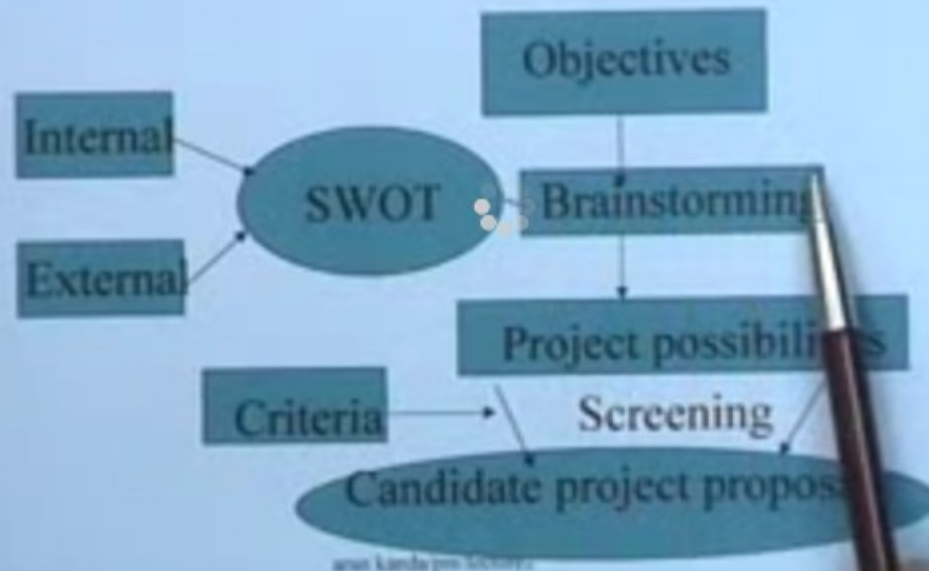
RESULTS OF SCREENING

Project No.2: Enforce strict emission regulations on vehicles (18 points)

Project No. 5: Encourage use of car pools (15 points)

Project No. 6: Grow more trees/green belts in the city (13 points)

PROJECT IDENTIFICATION



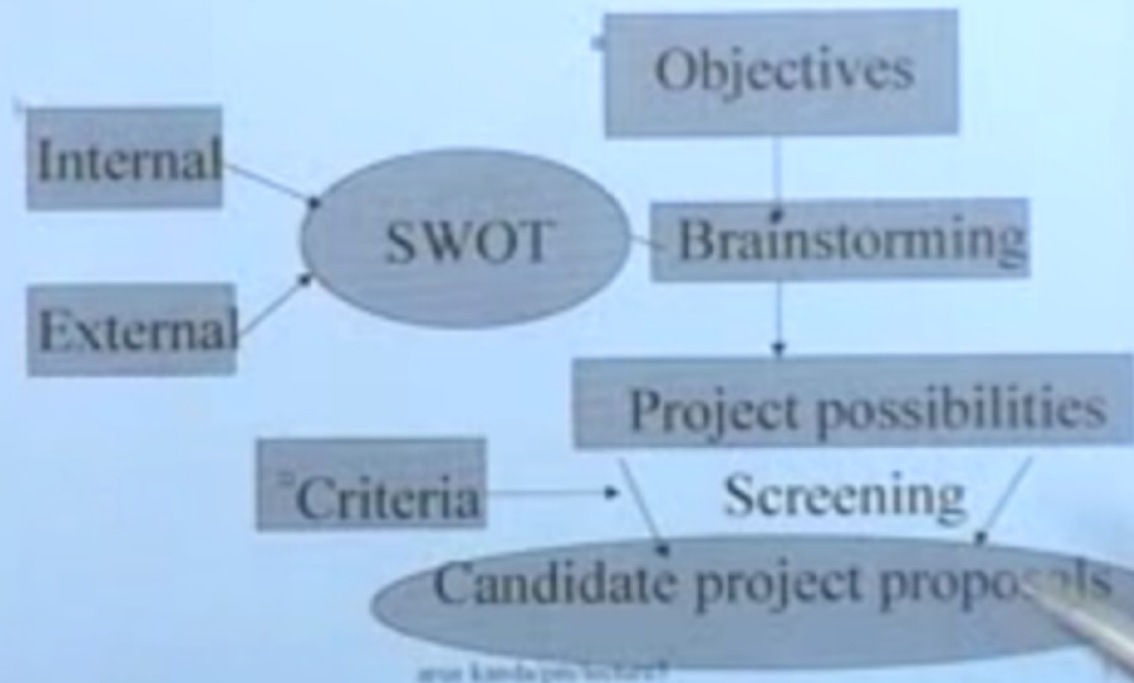
SUMMARY

- Project identification is generally done by brainstorming
- Broad objectives guide the brainstorming
- Introspection is necessary to identify the strengths and weaknesses of the system
- Looking outside towards the environment provides new opportunities and threats

SUMMARY (Continued)

- Evaluation of ideas is suspended during brainstorming to encourage creativity
- A subsequent screening on relevant criteria produces a candidate set of projects for detailed scrutiny
- An exercise to illustrate the procedure was undertaken

PROJECT IDENTIFICATION



CRITERIA IN SCREENING PROJECTS

- Investment
- Rate of return
- Risk
- Likely profit
- Payback
- Similarity to existing business
- Expected life
- Flexibility
- Environment impact
- Competition

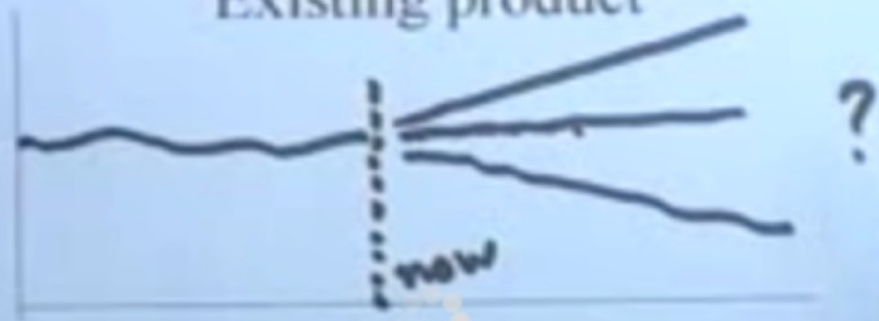
PROJECT APPRAISAL

- Market appraisal
- Technical appraisal
- Financial appraisal
- Socio economic appraisal
- Ecological appraisal

MARKET APPRAISAL

- What would be the aggregate demand of the proposed product or service?
- What would be the market share of the project under appraisal?

Existing product




New product




MARKET APPRAISAL (ISSUES)

- Past and current demand trends
- Past and current supply position
- Production possibilities and constraints
- Imports and exports
- Nature of competition
- Cost structure
- Elasticity of demand


MARKET APPRAISAL (ISSUES contd.)

- Consumer behaviour
 - motivations, attitudes, preferences, requirements
 - Distribution channels
 - marketing policies
 - Administrative, technical and legal constraints
- 

TECHNICAL APPRAISAL

- Whether prerequisites for the success of project considered?
 - Good choices with regard to location, size, process, machines etc.
- 

TECHNICAL APPRAISAL (ISSUES)

- Preliminary tests and studies
 - Availability of raw materials, power and other inputs
 - Optimal scale of operations
 - Choice of suitable production process
 - Choice of appropriate machines and equipment
- 

TECHNICAL APPRAISAL (Continued)

- Effluents and waste disposal
- Proper layout of plant and buildings
- Realistic work schedules
- Socially acceptable technology

ECONOMIC APPRAISAL

- Social cost -benefit analysis
- Direct economic benefits and costs in terms of shadow prices
- Impact of project on distribution of income in society
- Impact on level of savings and investments in society

ECONOMIC APPRAISAL (Continued)

- Impact on fulfilment of national goals
 - Self sufficiency
 - Employment
 - Social order

ECOLOGICAL APPRAISAL

- Impact of project on quality of
 - Air
 - Water
 - Noise
 - Vegetation
 - Human life

ECOLOGICAL APPRAISAL (Continued)

- Major projects , such as these, cause environmental damage
 - Power plants
 - Irrigation schemes
 - Industries like bulk drugs, chemicals and leather processing
- *Likely damage & the cost of restoration*

FINANCIAL APPRAISAL

- Whether the project is financially viable ?
 - Servicing debt
 - Meeting return expectations

FINANCIAL APPRAISAL (Continued)

- Investment and phasing of the total cost
- Means of financing
- Cost of capital
- Projected profitability
- Breakeven point
- Cash flows in the project

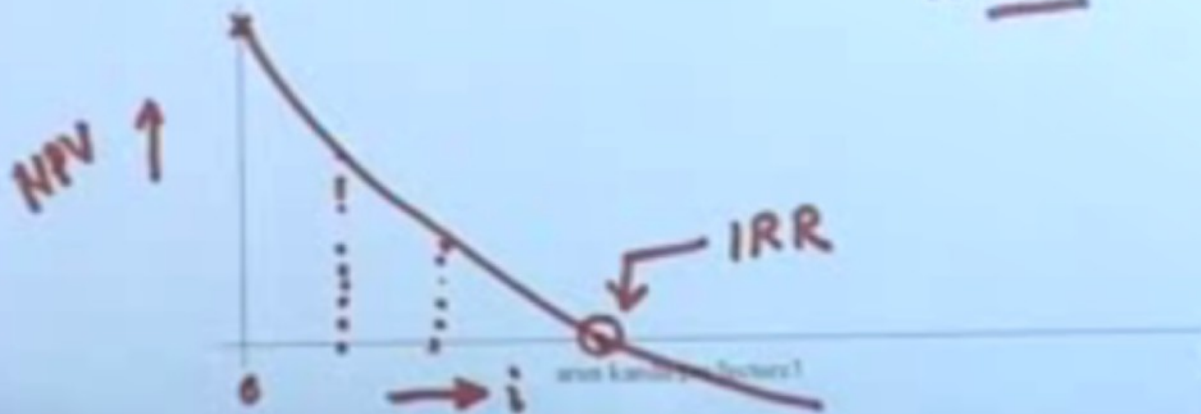
FINANCIAL APPRAISAL (Continued)

- Investment worthwhile?
 - Net present value
 - Internal rate of return
 - Payback period
- Loan returning capability
 - Debt service coverage ratio
- Level of risk

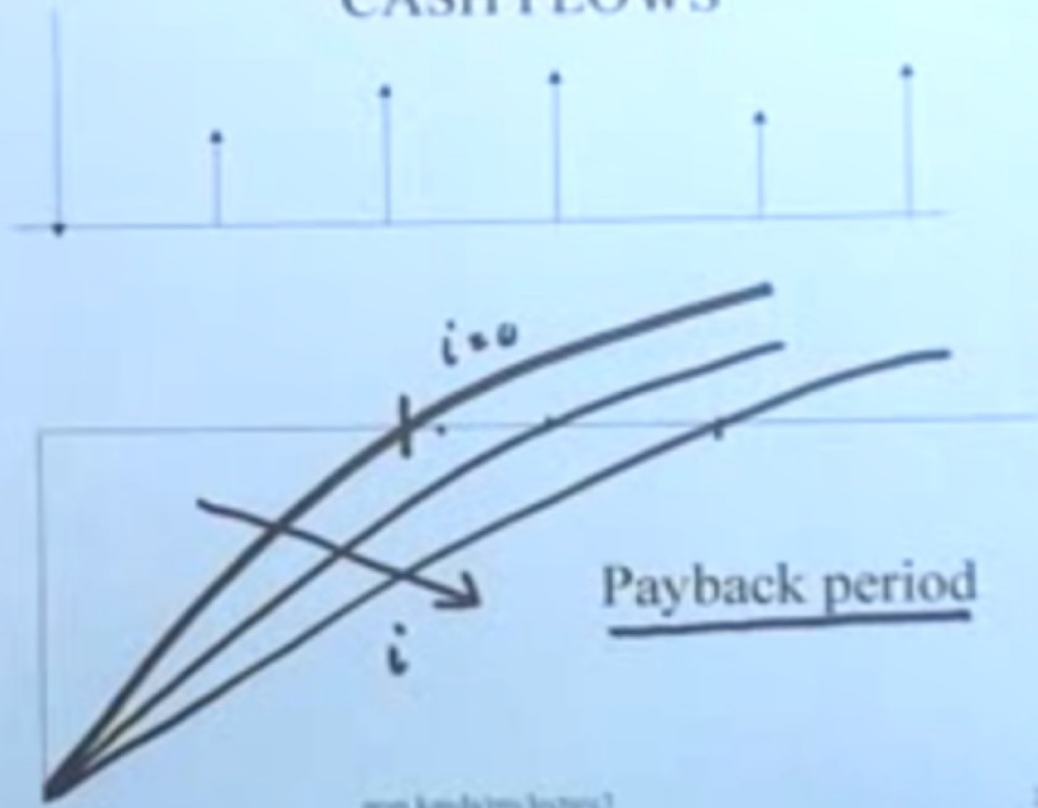
CASH FLOWS



Net present value ✓
& IRR



CASH FLOWS



SUMMARY

- A project feasibility report includes
 - Market and demand analysis
 - Technical analysis
 - Financial analysis
 - Socio economic analysis
 - Ecological analysis
- This analysis helps the decision maker in making the right choice of the project.

KEY ISSUES IN PROJECT ANALYSIS

- Market Analysis
 - Potential Market & Market Share
- Technical Analysis
 - Technical viability & Sensible choices
- Financial Analysis
 - Risk and Return

KEY ISSUES IN PROJECT ANALYSIS (Continued)

- Economic Analysis
 - Benefits and costs in shadow prices & other impacts
- Ecological Analysis
 - Environmental damage & restoration measures

IDEA GENERATION



Screening

Project Appraisal

Project Selection

