



Unit 2– Topic 2

Key aspects to consider in preparing a project profile

KEY ASPECTS TO CONSIDER IN PREPARING A PROJECT PROFILE

4.1 Introduction

Despite its simplified nature, there are a number of key factors (or parameters) that must be understood and considered by the applicants if they are to adequately complete the project profile. These include: (a) the level and nature of the demand for the eventual project; (b) the relevance of supply constraints (where applicable); (c) the definition of project operations, such as the units of production and the production cycle; and (d) the types of costs involved. Each of these is examined in more detail below.

4.2 The Importance of Demand

The correct estimation of demand is critical for any type of project. No project is worth undertaking if it does not respond to a demand - either from the market (in the case of projects generating products or services for sale) or from potential users (for non income generating projects).

As a result, the estimation of existing or potential demand must comprise the first step in assessing the viability of an investment. A knowledge of the level of demand likely to be met by the project not only determines its overall feasibility, it will also play an important role in deciding the location of the project (e.g. a health clinic, transport service, or shop), the scale of the investment, and the nature of the item or service to be offered.

While it is not necessary at the profile stage to enter into a detailed analysis of demand, no profile should ever be prepared, or accepted, which does not explain the basic assumptions as to who would be the purchasers or users of the output of the project, and what their pattern of use would be. These key aspects are explored in more detail below:

4.2.1 Income Generating Projects

For income generating projects the two key factors are the quantity that can be sold (i.e. that will be purchased), and the price that the buyer will pay. For some products, such as grains, construction blocks or cooking oil, demand is rarely a limiting factor; the market is large and the sort of projects supported by RuralInvest are unlikely to meet more than a small fraction of total consumption. Furthermore, as the products are not readily perishable, they can be made available year round, and prices tend to change only gradually, reflecting variations in raw material and storage costs. Thus determining volumes and prices for



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these products is a matter of project output, and predominant market price (less transport costs to the market).

Perishable products, however, are a different story. Here available volumes, and therefore prices, can vary enormously, as the product is expensive if not impossible to keep for another day. Fresh vegetables may be very abundant and cheap in the winter, for example, when rainfall is adequate and temperatures moderate, but may be very scarce and expensive in the summer when irrigation and even shade netting may be required. For perishable products, therefore, it is critical to consider the seasonality of production for the proposed project, and relate that seasonality to the prices likely to be encountered.

Specialized products (including many processed foods, clothing and services) are the most difficult categories for which to determine market demand and prices. Prices are not standard for all goods or services of one type, but vary according to ingredients, quality, and the perceptions of the buyer. Prices may be estimated on the basis of the closest comparable product, although if no distinct and obvious difference exists which will attract the buyer, a significant price reduction may be necessary at the beginning to persuade purchasers to shift from the existing alternatives to the new product or service offered by the project. Sales volumes can be equally hard to estimate, especially if the product or service is new, or is entering a very limited market. In such cases, investment plans should not be over ambitious, and the minimum scale of production that is compatible with cost considerations is recommended, at least for start-up. Where services are concerned, it must be remembered that a service not sold during a particular time period (e.g. the use of a tractor for land preparation) is lost forever, so variations in demand according to season are critical.

4.2.2 Non Income Generating Projects

Although it may be difficult to estimate demand for a marketed product, where there is no market at all, estimating demand can be even harder. What will be the demand for an investment in watershed protection, or for a new primary school? The starting point in the absence of markets must be to identify who are the expected beneficiaries, both direct and indirect. Normally one thinks of beneficiaries in terms of families, so for every school child or patient at a medical clinic, there is a family which benefits.

Perhaps the best way to try and identify potential direct beneficiaries is to ask: "What are people doing in the absence of this product or service? Would they change over to become users (i.e. beneficiaries) of the new project?". Another key question is: "How many new users might be created if the project goes ahead?". Perhaps only a few children in the area currently go to school, as the only existing facility is some kilometres away in the nearest town. But how many might be tempted if the school was now within walking distance? It should not be forgotten that suppliers and workers are also direct beneficiaries, and should be included in the estimation.



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An erosion control project might have few direct beneficiaries (e.g. farmers and householders directly affected by the erosion), but a considerable number of indirect beneficiaries (e.g. all those using the river or streams that would be protected). In fact, indirect beneficiaries often include the entire population of the area served by the project, whether it be a bridge, potable water, or a day care facility, so this number is often quite large in comparison with the number of direct beneficiaries.

4.3 Supply as an Influencing Factor

Although not as universally important as demand, supply can also have a considerable bearing on the viability of a project, particularly one producing outputs for the market. If operations will require inputs of raw materials (for example, milk for a dairy processing plant), or considerable quantities of labour, it is important to consider the availability of that supply. Where are dairy farmers selling their milk now? What will be the incentive for them to sell instead to the new plant? Do the men and women of the community have the free time to work in the project?

As in the case of the sale of outputs from a project, input availability may also change by season. Will labour be scarce at certain times of the year as workers disappear to harvest their fields, or migrate to work on larger farms in the lowlands? Will milk production decline in the dryer and hotter summer months? A processing plant for fruits and vegetables may be able to operate only a few months per year, as insufficient supply may be available for the remaining months to keep the factory in operation.