Project Formulation
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• What is Project Formulation?

• Stages of Project Formulation

• Project Report
What is Project Formulation?

• Taking a first look carefully and critically at the project idea
• Carefully weighing its various components
• Analysing with the assistance of specialists or consultants
• Assessment of the various aspects of an investment proposition
• It is an important stage in the pre-investment phase
Stages of Project Formulation

1. Feasibility Analysis
2. Techno-Economic Analysis
3. Project Design and Network Analysis
4. Input Analysis
5. Financial Analysis
6. Cost-Benefit Analysis
7. Pre-Investment Analysis
1. Feasibility Analysis:

- First stage in project formulation.
- Examination to see whether to go in for a detailed investment proposal or not.
- Screening for internal and external constraints.

Conclusion could be:-

- The project idea seems to be feasible
- The project idea is not a feasible one
- Unable to arrive at a conclusion for want of adequate data
2. Techno-Economic Analysis:

• Screens the idea to-Estimate of potential of the demand for goods/services.
• Choice of optimal technology.
• This analysis gives the project a platform for preparation of detailed project design.
3. Project Design and Network Analysis:

• It is the heart of the project entity.
• It defines the sequence of events of the project.
• Time is allocated for each activity.
• It is presented in a form of a network drawing.
• It helps to identify project inputs, finance needed and cost-benefit profile of the project.
4. Input Analysis:

- Its assesses the input requirements during the construction and operation of the project.
- It defines the inputs required for each activity.
- Inputs include materials, human resources.
- It evaluates the feasibility of the project from the point of view of the availability of necessary resources.
- This aids in assessing the project cost.
5. Financial Analysis:

• It involves estimating the project costs, operating cost and fund requirements.
• It helps in comparing various project proposals on a common scale.
• Analytical tools used are discounted cash flow, cost-volume-profit relationship and ratio analysis.
• Investment decisions involve commitment of resources in future, with a long time horizon.
• It needs caution and foresight in developing financial forecasts.
6. Cost- Benefit Analysis:

- The overall worth of a project is considered.
- The project design forms the basis of evaluation.
- It considers costs that all entities have to bear and the benefit connected to it.
7. Pre-investment Analysis:

• The results obtained in previous stages are consolidated to arrive at clear conclusions.

• Helps the project-sponsoring body, the project-implementing body and the external consulting agencies to accept/reject the proposal.
Project Report

• It is a concise copy of detailed analysis done for the project.

• An entrepreneur/expert prepares the report before the investment in project is done.

• The report assesses the demand for proposed product/service, works out cost of investment and profitability on this investment.

• It acts as an instrument to convince investors to invest in the project.
A project report gives information on the following:

- **Economic aspects** – present market, scope for growth, justification for investment.
- **Technical aspects** – technology, machinery, equipment needed.
- **Financial aspects** – Total investment needed, entrepreneur’s contribution, cost of capital and return on capital.
- **Production aspects** – Product details, justification for the choice of product, export worthiness.
- **Managerial aspects** – Qualifications, experience of people needed for managerial posts.
Contents of a project report

• Objectives and scope of the report.
• Product characteristics (product design, specifications, quality standards, uses and applications).
• Market position and trends (current capacity for production, potential demand, export prospects, trends in import-export, price structure etc).
• Raw materials (types, quality, sources, price).
• Manufacturing (process, production schedule, technique used).
• Plant and machinery (types, infrastructure support, cost).
• Land and building (Requirement, building construction schedule, choice of location, cost).
• Financial implications (Capital structure, fixed and working capital investment, project cost, profitability).
• Marketing channels (Trade practices, marketing and advertising strategy).
• Personnel (Requirement of staff, skilled-unskilled labour, salary and wage payment, qualifications, experience)
• The project report is submitted to financial institutions for grant of land and other financial concessions.

• Organisations like Small Industries Service Institute (SISI) and Small Industries Development Organisation (SIDO) help entrepreneurs to prepare project report.

• The financial institutions ascertain from the report, whether the project can generate enough funds to repay the borrowings in stipulated time frame.