**Chapter Three: Project Identification**

**3.1 Project Idea**

**Project Identification:**

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.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 sectoral information and strategies being the main sources of project ideas.
* Project ideas generally should aim at overcoming 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. The variety of projects makes it impossible to prepare an exhaustive list of sources from where project ideas emanate; but much depending on the experience and imaginatizon of those entrusted with the task of initiating development project.

The first stage in the project cycle is to find potential projects. Identification of promising investment opportunities requires imagination, sensitivity to environmental changes, and a realistic assessment of what the firm can do. This phase may take two forms. If the project is largely a ***private venture*** in a widely market economy context the initiating entity will define the concept, expectation and objectives of the project. On the other hand, the project idea can also emanate from ***government agencies*** in the context of government development plans. In the latter case sectoral information (i.e. the direct and indirect demands of sectors) is an important source of identification. In market economy context **anticipated demand** for the projects output is important. In addition assessment of appropriate technology, scale of the project, timing of the project etc. are important. All types of specialists’ input are required at this stage.

The planning phase of a firm’s capital investment is concerned with the articulation of its broad investment strategy and the generation and preliminary screening of project proposal. The investment strategy of the firm delineates the broad areas or types of investment the firm plans to undertake. This provides the framework, which shapes, guides, and circumscribes the identification of individual project opportunities.

* As traditional saying goes

“ The key to success lies in getting into the right business at the right time”.

Identification of meaningful project idea requires,

* + - Imagination
    - Sensitivity to environmental changes
    - Realistic assessment of what a firm or organization can do
* However, there are certain broad guidelines which are helpful in the generation and screening of project ideas
* Project identification commonly follows the following procedure.
  1. Generation of ideas
  2. Monitoring the environment
  3. Corporate appraisal ( self assessment)
  4. Preliminary screening
  5. Project rating index.

**Generation of ideas**

* Most of the new projects ideas are a result of
  + Once specialized technical knowledge or
  + Marketing expertise or
  + Some other competence
* To stimulate the flow of project idea the following are helpful.

1. Analysis of Strength, Weaknesses, Opportunities and Threats (SWOT):
   * + SWOT analysis represents a conscious and deliberate , and dynamic effort by an organization to identify opportunities that can be exploited.
     + Periodic SWOT analysis facilitates the generation of new idea

**Clear articulation of objectives**

* The operational objectives of the organization may help to generate ideas.
* The operational objective of business firm for example,
  + - Cost reduction
    - Productivity improvement
    - Increase in capacity
    - Expansion and growth

**Monitoring the environment**

* The organization must systematically monitor the environment in which it will operate.
* In other words the organization is expected to monitor the following key environmental factors in relation to each of identified ideas.
* **Economic aspects**
  + State of the economy
  + Possible fluctuation in the economy
  + The degree of integration with the world economy
* **National policy**
  + Sectoral policy
  + Government program
  + Tax policy
  + Government support
  + Financial policy
* **Technological factor**
  + Availability of technology
  + Accessibility of the available technology
* **Socio demographic factor**
  + Population size and distribution
  + Education level
* **The nature of competition (for business firms** 
  + Number of firms in the industry
  + Nature of entry
* **Nature of input supply**
  + Availability
  + Cost of row material

**3.2 Sources of Project Ideas**

**3.2.1 Macro 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 and/or underdeveloped 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;

**3.2.1 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 necessity to complement or expand investments previously undertaken;
* The desire of local groups or organizations to enhance their economic status and improve their welfare;