UNIT 1  CONCEPT AND SIGNIFICANCE OF PROJECT

Structure

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1.0 OBJECTIVES

After going through this unit, you will be able to:

- explain the project and project concept;
- discuss the significance of project to the country, planners and educationists; and
- identify the inter-relationship between plan and project.

1.1 INTRODUCTION

Projects are the building blocks of an investment plan. The plan cannot be good if its constituent parts, the projects, are faulty. This unit will deal with the definition of a project, concept of a project and the significance of a project. The project and plan are also closely interrelated. The interdependence between the two would be studied in detail in section 1.3.

1.2 MEANING AND CONCEPT OF A PROJECT

This section deals with definition of a project and defines the initiation of concept of a project. The project generally involves spending of capital resources in order to create productive assets. These assets then give returns over a number of years, which is tied to the life of most constraining resource. The same could be generalized in the form of following specific definitions of a project.
1.2.1 Definition of a Project

1) Project is an investment activity meant for providing the returns for specific clientele group for specific activity, specific objective and specific area development. It should facilitate analysis in planning, financing, implementation, monitoring, controlling and evaluation.

2) A project is a proposal for an investment to create, expand and/or develop certain facilities in order to increase the production of goods and/or services in a community during a certain period of time. Furthermore, for evaluation purposes, a project is a unit of investment, which can be distinguished technically, commercially and economically from other investments.

3) Project is an activity for which money will be spent in an expectation of returns and which logically seems to lend itself to planning, financing, and implementation as a unit. It is the smallest operational element prepared and implemented as a separate entity in a national plan of programmes of agricultural development. It is a specific activity, with a specific starting point and a specific ending point, intended to accomplish specific objectives. It is a unique activity noticeably different from preceding, similar investments, and it is likely to be different from succeeding ones, not a routine segment of an ongoing programme.

4) A project is an instrument of change. It is a coordinated series of actions resulting from a policy decision to change resource combinations and levels so as to contribute to the realization of the country’s development objectives (Benzamin, 1985).

The first three definitions relate the investment activity to benefits arising out of them. The fourth definition looks at the project as a dynamic element. It says “develop the project according to the plan”. One needs to identify, what is to be changed and how it is to be changed?

1.2.2 Features of a Project

The important features of a project are as follows:

1) The size of the project should be as small as possible and should also be economically, technically and administratively feasible. A number of projects could form a programme. The entire programme could be analysed as single project. This would invite the risk that the high returns from one component would mask the low returns from the other component of the programme. The administrators usually club projects of similar nature while seeking funding for the projects. Even in such situations individual components should be analyzed separately.

2) A project is an investment activity that can be evaluated separately. A project can be separated into parts; each of these can be defined as projects. Such projects should not be considered separately, if they are so closely related that one cannot be operated or fulfill its purpose without the other. For example, Dam and a main canal to distribute water cannot be considered as a two separate project as one part cannot work without the other. Such closely integrated projects should be considered as a one project.
3) The projects are considered and evaluated at all levels from a junior engineer to the Planning Commission or the World Bank. They are also evaluated at all depths ranging from mere inspection by experts to use of programming techniques and scientific guess work or prediction.

4) Same evaluation technique should be used to achieve consistent decisions at all levels and time of evaluation. Thus, the junior engineer or settlement planner should be guided by the same rules and methods as are used in the final appraisal. It is difficult to practice the same in those projects where the aim is to maximize the social advantage for the whole country.

5) All the projects, whether of public or private sector, need to be analysed. The feasibility analysis of private sector projects would help government to approve such projects as well as to grant financial assistance. The public sector projects on the other hand need to be thoroughly analysed, certain public sector enterprises may not yield commercial profit, but they may demand support in the form of subsidies. The analysis would reveal the extent of subsidies needed so that necessary provisions can be done in the plan documents.

6) The biological nature of agricultural projects differentiates the agricultural projects from projects of other economic sectors. This feature of agricultural projects makes it harder to predict input-output relationships.

1.2.3 Project Concept

Project concept is considered as a part of the project cycle. In this stage "project ideas" are first developed. The development of project-concept is prerequisite to the decision to proceed with the next step of identification.

The project-concept definition expresses the country's development objectives in the form of projects. In order to define project concept, a thorough understanding of the country's agricultural development objectives, its resource base, and an assessment of the options facing the country should be known. The types of questions that emerge in the process are: should the country invest heavily in irrigated agriculture or should it develop first its potential for rainfed agriculture? In order to find answers to these questions, sectoral surveys covering both irrigated and rainfed agriculture could be attempted. The sectoral survey would help in identification of constraints and potentials for development. The prioritization needs to be done not only in a particular sub-sector (e.g., agriculture) but can also be between sub-sectors (e.g., agriculture, livestock, forestry). The prioritization could be done between livestock and crop production, livestock and fisheries, or forestry, etc.? Priority needs to be accorded to the institutional and support services such as; agricultural credit, research, extension, marketing and storage, etc. The prioritization of investment activity would help in allocation of resources to each of these activities.

The agricultural projects most often do not evolve from a thorough process of prioritization, selection, and screening. The World Bank also undertakes agricultural sector surveys to a limited extent. These sector surveys help in assessment of priorities and development of project ideas that are helpful in identifying specific projects for investment. The sectoral surveys assess the role of the project against the background of the country's agricultural development objectives and the way they are being pursued. The IFAD also develops an investment strategy under its
special programming missions with the aim of advancing loans. The project ideas are mostly developed on an ad hoc basis and may emerge from a variety of sources. Borrower countries, consultants, engineering firms, officials of donor countries and bilateral agencies on brief visits to a country are all potential sources.

Check Your Progress 1

Note: (i) Use the space below for writing your answers.
(ii) Compare your answers with those given at the end of this unit.

1) What do you mean by a project?

2) State the various features of a project.

1.3 PLAN AND PROJECT RELATIONSHIP

Project selection and planning are intimately connected. Since, the planning is usually done at the center it is expected that projects could be selected for implementation at the center. However, all the projects need not be centrally planned and may be delegated to departments, municipalities and public companies whereas, the large projects must be centrally scrutinized, selected, and fitted into an investment programme.

1.3.1 Plans Require Projects

Development of a sound plan for an area or country requires a great deal of knowledge about existing and potential projects. This is obvious enough for a short term operational plan (1-5 years) which must, contain firm and realisable plans and for a perspective plan (10-15 years) which is a medium term sketch of economic developments in quantitative form. The perspective plans lay down target rates of growth for gross national product, consumption, and also for investment and its financing by both domestic and foreign savings. These plans should be based on realistic assumptions about the amount of investment and output, which will flow when; capacity operation is achieved (the capital-output ratio). The extent of realism of such plans depend upon the knowledge of the rate at which good projects can be planned, designed, built and brought to capacity operation. It also depends upon the knowledge of the capital-output ratios expected in different sectors of the economy. Such knowledge can be gained by studying the investment and output trends in other economies especially the industrialized economies. While using experiences of such countries allowance should be given
for the fact that costs are usually higher than expected, and outputs lower, in developing countries than they are in industrialized countries. Often the capacity to develop sound projects is overestimated, while the time-period required for their planning, is underestimated in developing countries. In short, if a plan is to be consistent and feasible, the critical appraisal of projects that have already been constructed within the country is needed.

A number of feasible plans may be developed but choosing the best among them is a difficult task. The government must strive continuously to direct investment to those sectors where it will yield the most in order to reach this optimum plan. Thus, for optimum allocation of resources among different sectors of the economy, it is essential that the costs and benefits of different projects in each sector should be assessed on a comparable basis. Thus, a good plan can only be formulated with a great deal of project planning, and with proper economic appraisal of projects.

1.3.2 Projects Require Plans

The economic appraisal is undertaken to find out the feasible projects for implementation. The knowledge of plan helps the analyst in economic appraisal of projects. The assessment of benefits requires estimation of effective demand of the projects product. The demand depends on how the economy would develop in future. This in turn depends on the long term plan and policies of the government. The total demand of a product can be met either by domestic production or through the imports. Here again the government policies with respect to tariffs, exchange rates and import controls would decide the role of each of these sources of supply in meeting the total demand.

The analysis of real cost of a project requires knowledge of the strength and scarcities which are operating and will operate in the economy. It is most usual to take actual prices of scarce resources, reigning at the time, as adequate measures of real scarcities. But scarcities change as development proceeds. The future prices thus needs to be predicted, and used for estimation of those costs and benefits, which occur in future. A likely future change in a price may be taken as a reason for using an accounting price now as an approximation to the insertion of a predicted price for each future year.

The perspective planning would help the planner to guess how scarcities will change. Will disguised or actual unemployment rise or fall? Will the balance of payments position become easier? Will the population growth continue to accelerate? Thus, the look into the future which perspective planning in particular details is necessary in order to produce informed guesses as to future scarcities.

Check Your Progress 2

Note:  
   i) Use the space below for writing your answers.
   ii) Compare your answers with those given at the end of this unit.

1) State the role of project in preparation of a sound plan?

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2) Do you agree that the economic appraisal of project needs the knowledge of a plan? If yes, then explain why it is essential?

1.4 SIGNIFICANCE OF PROJECT

The project has significance as: a developmental tool; seeking external aid; efficient implementation unit for investment; and as a subject matter for the educational institutions. These are discussed in detail here:

- **Projects are the “Cutting Edge of Development”**

Projects are considered to be the “cutting edge of development”. The major problem faced by the administrators is the implementation of development programmes. Poor project preparation is the prime cause for inefficient implementation of these programmes. Most of the countries have poor capacity to prepare and analyze projects. The administrators often underestimate the time and effort needed to prepare suitable projects. They focus more on policy formulation and planning of a much broader scope overlooking the fact that development cannot proceed unless specific project are there on which to spend money. The result is ill conceived and hastily drawn up projects.

- **Projects Role in Overall Development**

Projects are essential for development of an economy. Therefore, the project selected for implementation should be of high priority in the national development program. Thorough consideration should be given to all alternatives in the economy as a whole as also within the sub-sector (e.g., agriculture sector). Most often the countries undertake more formal sector studies on agricultural plans to set forth priorities and objectives. However, the focus should be on the overall development of the sector, which would ensure that the investment programmes are well balanced. The sector studies often draw a balance between alternative investments and options are given keeping in mind the linkage between agricultural sector growth and the growth in other sectors. They also study the institutional factor affecting the development and suggest the needed changes in institutional set up. It also suggests the governmental policies which need to be modified in order to provide both the positive and negative incentive to aid in proper implementation of the programme. Such a well thought out and well developed strategy helps in identification of specific projects. The initial feasibility studies are taken up for these projects and are followed by detailed project preparation before investment is committed.

- **The Project Investment Decision**

There are a number of feasible projects, which can be implemented. However, due to resource constraint they need to be prioritized. The analytical methods help in prioritizing projects; however, the project investment decision is not based solely on this. Certain other factors are considered in taking project investment
decisions. For example, there are two projects; one a settlement project and the other a plantation project giving similar project benefits, the settlement project is chosen for implementation as it would lead to improved income distribution. The national investment decision should be a political decision summing up the best judgment of all those responsible for taking sound decisions. The project analysis should not be considered as a tool to replace this judgment, rather it is an additional tool which should be used to sharpen the judgment process so that the likelihood of error is minimized.

- **Funding for Programme vis-à-vis Project**

The external aid to agriculture sector is usually project based. There are a number of advantages to this approach, firstly, there is discipline involved at various steps of the project cycle. The project based lending makes monitoring and control easier by way of supervision. Projects assist and influence the country’s investment strategy. They aid in directing resources towards the specific target groups and specific regional income group.

The disadvantage of such an approach is that it takes lot of precious time in preparation and implementation of the project. Most often the disbursement of the funds is behind the target and so the rate of absorption of a country for external financing resources for projects is much lower than would be the case with say, programme lending.

The project has a number of components that are mutually supportive therefore a multi-disciplinary approach helps in preparation of a sound project. The agricultural development projects have a diverse component such as social services, irrigation, roads, beneficiary participation, etc. Seeking the beneficiary participation is all the more skilled and time taking process. Therefore, such projects require more time and specialized staff, for better conceptualization of the project. Most often there are shortage of project staff and they are filled by shifting the staff from other departments. Most of the programmes and projects lack sound training of their personnel going to run the project.

- **The Subject of Agricultural Project Analysis**

The subject of agricultural project analysis has not received the required attention among the students because of the unawareness of the opportunities that exist for teaching institutions to contribute to their countries’ project approach to development. The knowledge of the importance and role of projects is limited to a small circle of government officials in key ministries, who negotiate loans with outside donors, and those directly involved in project implementation. Also, there is dearth of course material in this field of project analysis as the recognized existing literature concentrates primarily on the economic analysis of projects, which is only one of the many aspects of project formulation.

The expanding role of the project approach to agricultural development in the developing countries has led to greater demand of qualified manpower for preparation and implementation of these projects. A large bulk of this growing demand is filled by the technical assistance from developed world. In some of the poorest African countries, the technical assistance component for project implementation may reach as high as 25 per cent of total project costs. This is generally not a free gift to the recipient country since it has to be paid back to the
donor. Thus there is a need to encourage this subject in educational institutions in order to create large number of trained manpower.

In many of the developing countries, the question of technical assistance to project preparation and implementation is becoming a question of national pride. The response by some governments to this challenge is the establishment of project preparation units or cells, whose task is to prepare projects for financing with external support and for exclusive domestic financing. Such an organizational development creates demand for skilled manpower.

Check Your Progress 3

Note: i) Use the space below for writing your answers.
   ii) Compare your answers with those given at the end of this unit.

1) State why, the subject of agricultural project analysis has not received much importance?

2) State the importance of project in development of the economy.

1.5 LET US SUM UP

Project is an investment activity which creates assets that produces benefits over a number of years. A project is an important unit of development. It is so interrelated with plan of the country that it is difficult to say which is dependent on the other. The significance of the project ranges as a unit of development, its advantages in seeking external funds and as a subject matter for educationist.

1.6 KEY WORDS

Plan : Plan requires a number of projects. Development of a sound plan for an area or country requires a great deal of knowledge about existing and potential projects. Plan may be of short term, medium term and long term.

Project : Project is an investment proposal which can be implemented and evaluated independently.
1.7 SOME USEFUL BOOKS/REFERENCES


1.8 ANSWERS/HINTS TO CHECK YOUR PROGRESS

Check Your Progress 1

1) A project is an investment activity that creates assets which gives benefits over a number of years. For other definitions of the project look in section 1.2.1.

2) The Project should be small as possible economically technically and administratively feasible. For more go through section 1.2.2.

Check Your Progress 2

1) Development of sound plan requires a great deal of knowledge about existing and potential projects. For detail go through section 1.3.1.

2) Yes, the knowledge of plan is essential for an efficient appraisal of a project. For details on the issue refer section 1.3.2.

Check Your Progress 3

1) Because of the unawareness of the opportunities that exist for teaching institutions to contribute to their countries project approach to development.

2) The importance of the project in development of an economy can be had from the fact that the administrators find difficulty in implementation of the programme mainly due to laxity at project preparation stage. For further details refer section 1.4.