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# UNIT 10 PROJECT DIMENSION, IDENTIFICATION AND FORMULATION

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## Structure

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## 10.0 AIMS AND OBJECTIVES

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The basic objectives of this unit are to acquaint you with the following:

- Dimensions of a project;
- Steps involved in project identification;
- Steps involved in project formulation; and
- Format of a detailed project report.

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## 10.1 INTRODUCTION

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As discussed in the previous unit, the project life-cycle has many distinct phases. In this unit, we will discuss the first two phases of the project life cycle. However, it will be preceded by a detailed examination of the dimensions of projects including various types of linkages. The discussion will facilitate you in the identification of a number of development projects which will be available for selection and appraisal.

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## 10.2 DIMENSIONS OF A PROJECT

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It is generally known that a project would belong to a sector/sub-sector. In the process, it gets identified with a particular sector/sub-sector. In a real-world situation, such identification has been misleading. A project has many more dimensions and it is essential to identify them at the outset.

- i) **Activity group:** The first dimension of the project is the activity group or nature of everyone. The project would belong to any of the following

four activity groups classified according to the nature of the activities. Such activity groups are:

- a) Final commodity-producing sectors,
- b) Productive infrastructural sectors,
- c) Marketing infrastructural sectors, and
- d) Social service infrastructural sectors.

Details about these sectors will be done in a separate unit subsequently. Nonetheless, we will briefly describe their nature.

The nature of this pattern of grouping is such that groups (b), (c) and (d) are complementary to group (a), group (d) stands on its own, as it largely comprises sectors/sub-sectors that provide for minimum social needs. Hence, it leaves little choice of any shift of investment from one sector to another within the group or with (b) and (c).

In terms of implications, consequent to a change or revision in groups, the direction of change needs to be assessed properly. With respect to groups (b) and (c), a revision within-group (a) will indicate the direction in which the revision in these two groups should be done.

For example, let us take milk production. Suppose, there is a revision within group (a) since milk production needs relatively more investment. This would call for, correspondingly, more investment in feeding and veterinary facilities in a group (b) and, similarly, more in marketing infrastructure for animal feed and milk output.

Therefore, a sequential procedure is to be followed while identifying and revising projects.

**ii) Independence and complementarity:** We have already discussed in detail about this dimension in the preceding units. As discussed, the project may belong to a wider programme in which it may either be independent or complementary to other projects. The attempt should, however, be to avoid conflict of objectives between the projects. This will ensure the maximization of benefits to the beneficiaries and, ultimately, society.

**iii) Potential beneficiary group:** Since a project is a planned intervention for the development of a certain social segment within a specific time period, the potential segment's interest becomes another dimension of the project. The project would have one or other of the following potential beneficiary groups as targets:

- a) The population of a Community Development Block in general or the inhabitants of a group of villages, e.g.: roads/electrification;
- b) The village community as a whole, e.g., for school, primary health centre, drinking water, public tube well;

- c) Members of a cooperative society, e.g: collection/chilling centre for a milk cooperative, wool carding centre for a weaver's cooperative;
- d) A specific target group, such as an association of target group persons or households for sharing an irrigation tube-well or drinking water well. It may also consist of individual members of households belonging to the target group, e.g., housing, dairy unit, shoe making;
- e) Private individuals, private firms and companies or households in general, e.g., small scale units, dairy units, orchard plantations.

Thus, we can see that the potential beneficiary groups have a wide range and accordingly the dimension of the project varies.

**iv) Share in investment (capital structure):** The capital structure is determined by the share in investment proposed by the private sector. Therefore, the capital structure is a very important dimension of a project. Perhaps by now, you know why. Depending on the beneficiary group, and their interests, the capital can be obtained either from the public sector, individuals, institutions (private sector), village community or panchayat, cooperative society or a combination of these.

In some extreme cases, investments can be fully public or private. Further, depending on the investors and in what proportions they share the project investment, the capital assets formed under the project can be either shared or owned.

**v) Financial interests:** Consequent to the capital structure, financial interests in the project could be many. Depending on the contributor's share in the project, the interests would vary. Project finances can come partly through fund transfers among the investors themselves by way of grants and loans or partly in the form of loans from financial institutions. This dimension of the project cannot be overlooked.

**vi) Allocation and area specificity:** The problem of allocation of time and resources, especially capital, has an important bearing on project identification. Therefore, it calls for proper coordination among different activities.

The spatial distribution and locational structure of economic activities and facilities determine what kind of projects can be formulated and what could be the allocation of different resources. Concepts like growth poles and central places can be used to illustrate the spatial and locational dimensions of the project.

A **growth pole** is a location (a town, village, or area) where one or more major economic activities (e.g., major industries or production centers) are concentrated. A **central place** is a location where a major physical (transport, warehouses, communication) and institutional (marketing, financial infrastructural) facilities are concentrated.

Normally there would be an order of priority amongst growth poles and central places in a region. The order of priority would depend on the extent of concentration of production activities and infrastructural facilities. While some projects may yield better developmental results when located in existing growth poles or central places, other projects may need to be set up to create new growth poles or central places.

Due to the differential effects of the project and the existing facilities, the command areas of growth poles and central places need to be properly assessed before the identification of the project.

Identification and clear specification of all the dimensions mentioned here are necessary prerequisites to proper appraisal and ultimate selection of projects. Formulation of the project blueprint should start with a specification of project dimensions.

### **Check Your Progress 1**

**Notes:** a) Write your answers in the space provided.

b) Compare your answers with the text.

- 1) List the reasons why the capital structure is an important dimension of a project.

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- 2) Identify the target groups for a family planning programme. Mention which of these you consider to be primary.

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- 3) Indicate two projects in a community development block, which are characterised by complementarity and two in which, there is conflict.

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Activity I Identify some growth poles and central places in your district. Indicate the reasons why you consider them as growth poles and central places.

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### 10.3 PROCESS OF IDENTIFICATION

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The process of project identification starts with the conception of an idea. The ideas have to be tested for their practicality and worthiness. Say in a community development block, the key factor would be the answer to the following questions:

- i) Whether the project implied in the idea would fall within block-level planning activities in terms of scope and investment?
- ii) Whether its technical features, including physical location, or layout alignment. etc. are **prima facie** sound?
- iii) Whether the material conditions of its successful operation in terms of the actual and potential availability of required raw material and energy exist in the block?
- iv) Whether the required skilled manpower would be available either because it already exists or there are conditions for its speedy development?
- v) Whether there is a local demand for the goods or services the potential project is intended to produce. Also if local demand is inadequate then whether the excess output can be sold to urban centres or to neighbouring blocks at competitive prices?
- vi) Whether the particular social minimum needs that the potential project intends to serve is unfulfilled in the block?

If the answer to these questions is an emphatic ‘yes’, then the project idea should be translated into a project blueprint. And if the answer turns out to be a ‘no’, the project idea should be dropped or, at best, postponed until favourable conditions for reconsideration arise.

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### 10.4 PROCESS OF FORMULATION

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After the series of project ideas have, thus, been identified and tested, individual projects need to be explicitly formulated. The project should be formulated or prepared on the basis of a detailed analysis of specific techno-

economic relationships. Project formulation generally leads to a Detailed Project Report (DPR).

This is the stage at which a detailed study will commence. So at this stage, realistic estimates can be made about how the project can be implemented and of its probable income-generating capacity. Detailed preparation of a blue-print takes time. According to the World Bank, it is expensive, as it may cost 7 to 10 per cent of the total project investment.

The process of formulation or preparation includes all the work necessary to bring the project to a point at which a careful review or appraisal can be undertaken. If the project is selected post the review, implementation of the project can be carried out.

A feasibility study has to be undertaken as the **first step** in project preparation. This step facilitates in deciding whether detailed advanced planning needs to be done. The feasibility study should clearly define the objectives of the project to fit its physical and social environment. This is expected to ensure that the project when implemented will give maximum returns. Details of feasibility analysis will be discussed in subsequent units.

In the preceding Unit, a detailed discussion on the plan, objectives and horizon has already enumerated the steps necessary to frame objectives for the block plan. These objectives will now have to be matched with the physical and social conditions of the village/block as step one.

Since each plan for a project is time-bound, you have to first make an inventory of all the resources in the base year. The accompanying chart will describe the manner or scheme of actions to be initiated by you at the block level, see Figure 1.

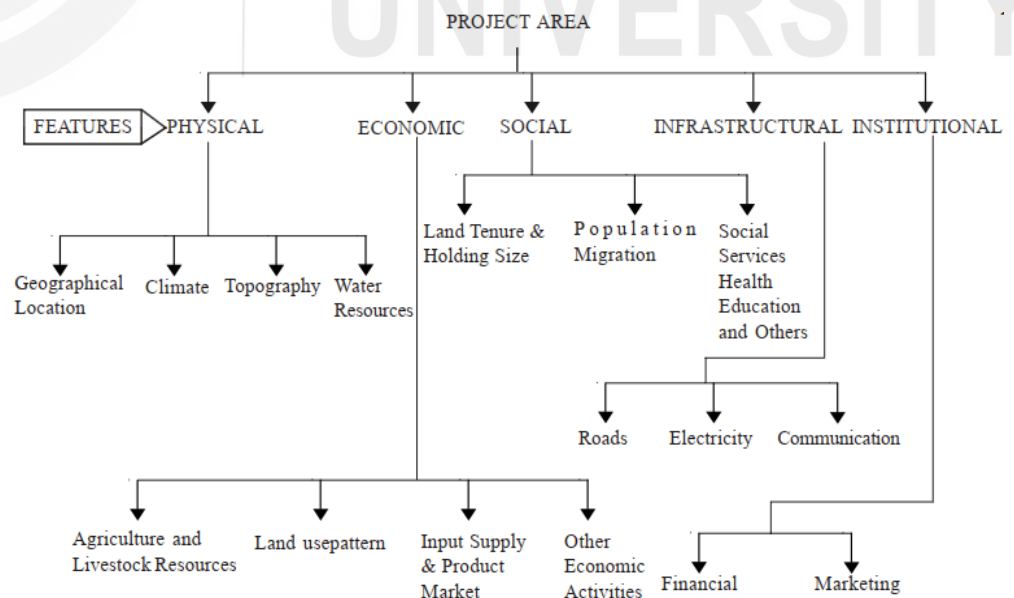


Fig. 1: Details about the features of the project area to be identified while formulating a project

This scheme will describe the existing status of the area where the project will be located and the base from which the project would start. In other words, it will be the framework of **constraints** and **opportunities** for the project.

### **Check Your Progress 2**

**Note:** a) Write your answers in the space provided.

b) Compare your answer with the text.

- 1) Think of the ways in which you can match the objectives with the physical and social conditions of a block you have visited. (**Hint:** See the chart and the preceding text.)

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### **10.4.2 Subsequent Step**

The next step involves working out the activities and general facilities, their phasing, costs and mode of financing. The organization and management aspects are also worked on at this stage. However, it must be noted that the activities would vary depending on the nature of the project. Therefore, a suggestive outline is given below. The outline can be adapted specially to fit the project which you are formulating.

- i) The Project Description
- ii) Component Details: Works and General Facilities
- iii) Project Phasing
- iv) Cost Estimates
- v) Financing
- vi) Organization and Management
- vii) Production, Markets and Financial Expectations
- viii) Benefits and Justification
- ix) Outstanding Issues
- x) Annexure.

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## **10.5 DETAILED PROJECT REPORT (DPR)**

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A DPR gives an overall picture of the proposed project and helps understand its prospects. One can very well understand the soundness of his or her proposed project on the basis of DPR and decide whether he or she should go

ahead with the project or not. It is DPR on the basis of which a financing institution or bank appraises the technical feasibility, economic and commercial viability, and financial viability of a proposed project. Based on the appraisal of DPR a FI, bank decides whether to extend financial support to the proposed project or not; and if to be extended what should be the quantum of such assistance

The World Bank recommends that, as a rule of thumb, a DPR should aim at the main text of about twenty-five single-spaced typescript pages for a simple agricultural project and no more than fifty pages for a complex rural development project. This has to be supported by a series of annexures, possibly in a separate volume. As far as possible, the main text should present the project in a form that a non-specialist can understand; specialized backup information – including maps, charts and detailed table-should be reserved for the annexures.

In the beginning, however, it must be noted that the substance of a project's DPR is more crucial than its format. Primarily, because each project will have a different focus and hence different elements of the project will need different emphasis. However, an outline of the format is provided here so that you, as a project formulator, can have a starting point. The checklist of the format, as discussed in previous sections, can now be given as follows:

- i) **Executive Summary:** This section should very briefly give the essential elements of the projects. It will include the rationale, priorities, beneficiaries, main components, investment period, costs, organization, and financial and economic efforts.
- ii) **Introduction:** This section should indicate the origin of the project idea and the agencies responsible for preparing the DPR. This section is basically a non-technical one and should be brief.
- iii) **Background:** This part is mainly for establishing the framework of the project in relation to the environment (natural, economic and social). The material presented here should have a direct bearing with materials to be presented in subsequent sections.
- iv) **Project Rationale:** This section should provide a persuasive discussion based on the process of identification discussed earlier. It should also give the technical, economic and social justification for the selection of the project. Since there are many development strategies all cannot be adopted by the project. Hence an explanation must be provided for choosing a particular strategy. Limitations for the project should also find a place in this section.
- v) **Promoter's Profile:** A promoter should furnish all such personal details in brief in a DPR as would help understand his/her background, personality traits and capability. It should include details such as name and address, his or her age, profile, category (SC/ST/OBC/Minority/Technical/Ex-service personnel/Physically handicapped), sex, educational



qualifications, relevant training received, previous work experience, family occupation, economic status of a family, own financial strength etc.

- vi) **Project Area:** The development opportunities and potential of the project need to be mentioned here.
- vii) **The Project:** This section should define and describe in detail, the objectives of the project and its operationalization. It should include details such as the name of the project, place, manpower required, the investment required, type of ownership etc.
- viii) **Organization and Management:** This section will describe the implementation and monitoring agencies for different aspects of the project. It should also discuss the administrative arrangements, staffing patterns, equipment, functions and powers of the project authority.
- ix) **Production, Markets, and Financial Results:** This section should show why beneficiaries should join the mainstream of the project. The financial and economic feasibility of the project should be provided here.
- x) **Benefits and justification:** This is a crucial part of the DP where all aspects of the project, discussed till now, are to be assessed for social and economic desirability. We will discuss this in the next section for a detailed understanding.
- xi) **Outstanding Issues:** This section is to contain some highlighting issues which the project will have to tackle at some future date.
- xii) **Annexure:** This part contains detailed support for the project. As this section is meant for specialists and experts, it must be prepared with special care. The materials included are statistical tables, maps, drawings, charts, photographs and diagrams. The order of presentation in this section must correspond with the main text presentation.

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## **10.6 LET US SUM UP**

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By now, we have discussed in greater detail the project life-cycle, viz., Dimension, Identification and Formulation. The status of the project objectives amongst the national plan objectives and the reasons for its selection, the project itself including its technical aspects and costs, and the proposed manner of implementation have all been covered. A special emphasis on the process of project identification and preparation has demonstrated their crucial role in the detailed project report. This report decides the fate of the project. Hence, in the next Unit, we will emphasize on appraising the project for its economic and financial feasibility.

### **Activity-3**

Take a detailed project report of any project from your own office or from the District Rural Development Agency's office. Study the DPR carefully, list at least five strong and weak points each. Briefly justify your answer.

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## 10.7 KEY WORDS

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**Capital Structure:** Denotes share in investment by various agencies,

**Central Place:** Location of major physical and institutional infrastructural facilities.

**Detailed Project Report (DPR):** A report providing details about the proposed report.

**Growth Pole:** Location of economic activities.

**Project Identification:** Testing of a conceived idea.

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## 10.8 SUGGESTED READINGS

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Gittinger, J. Price, 1982. *Economic Analysis of Agricultural Projects* (Rev. Ed.2), The John Hopkins University Press: Baltimore and London

Mishra, S.N., 1984, *Rural Development Planning – Design & Method*, Satvahan Publications: New Delhi (essential reading – Chapter 3 and 4)