

Lecture 14

Venture Feasibility

Institutional – Organizational – Managerial aspects

A whole range of issues in project preparation revolves around the overlapping institutional, organizational and managerial aspects of projects, which clearly have an important aspect on project implementation.

One group of questions asks whether the institutional setting of the project is appropriate. The sociocultural patterns and institutions of those the project will serve must be considered. Does the project design taken into account the customs and culture of the farmers who will participate? Will the project involve disruption of the ways in which farmers are accustomed to working? If it does, what provisions are made to help them shift to new patterns?

To have a chance of being carried out, a project must relate properly to the institutional structure of the country and region. What will be the arrangements for land tenure? What size holding will be encouraged? Does the project incorporate local institutions and use them to further the project? How will the administrative organization of the project relate to existing agencies? Is there to be a separate project authority?

The organizational proposals should be examined to see that the project is manageable. Are authority and responsibility properly linked? Does the organizational design encourage delegation of authority? Does the proposed organization take proper account of the customs and organizational procedures common in the country and region. Are ample provisions included for managers and government supervisors to be obtaining up-to-date information on the progress of the project?

Managerial issues are crucial to good project design and implementation. The analyst must examine the ability of the available staff to judge whether they can administer such large-scale public sector activities as a complex water project, an extension service, or a credit agency. When managerial skills are limited, provision may have to be made for training, especially of middle-level personnel.

Social Aspects

We have mentioned the need for analysts to consider the social patterns and practices of the clientele a project will serve. More and more frequently, project analysts are also expected to examine carefully the broader social implications of the proposed investments. We have noted proposals to include weights for income distribution in the formal analytical framework so that project benefiting lower-income groups will be favoured.

Commercial Aspects

On the output side, careful analysis of the proposed market for the project's production is essential to ensure that there will be an effective demand at a remunerative price. Where will the products be sold? Is the market large enough to absorb the new production without affecting the price? If the price is likely to be affected, by how much? Will the project still be financially viable at the new price? What share of the total market will the proposed project supply? Are there suitable facilities for handling the new production? Perhaps provision should be included in the project for processing, or may be a separate marketing project for processing and distribution is in order. Is the product for domestic consumption or for export? Does the proposed project produce the grade or quality that the market demands? What financing arrangements will be necessary to market the output, and what special provisions need to be made in the project to finance marketing? Since the product must be sold at market prices, a judgment about future government price supports or subsidies may be in order.

A major objective of the financial analysis of farms is to judge how much farm families participating in the project will have to live on. The analyst will need budget projections that estimate year by year future gross receipts and expenditures, including the costs associated with production and credit repayments farm families must make, to determine what remains to compensate the family for its own labour, management skills, and capital. Part of the income the family will receive may in food that is consumed directly in the household, so judgment must be about the quantity and its value. Even if a family realize a considerable increase in income or "net incremental benefits" by participating in the project – as a result, say of borrowing to purchase fertilizers to increase rice production – is absolute income may still be so low that nearly all of the incremental production is consumed in the household. Financial analysis must

judge whether the family will then have sufficient cash to repay the production credit for fertilizer. If not, the analyst may have to make a policy judgment about how much to subsidize families with very low income.