PN-ABX-387

AgEnt 99-95

TRAINING PROGRAMME ON PROJECT IDENTIFICATION AND ENTREPRENEUR DEVELOPMENT FOR BANK OFFICERS

3rd & 4th June 1995
Taj Samudra Hotel
Colombo

Sponsored by

AgEnt Project

AgEnt

The Agro-Enterprise Development Project
Colombo, Sri Lanka

June 1995

CONTENTS

Rural Sector and Its Resources

Prepared by: S.Amarasekare

Major share of the national resources of Sri Lanka lies in the rural sector. Outstanding diversity of the natural, physical and human resources in the rural sector is the major potential.

Natural Resources

The variety of natural resources in Sri Lanka is created by the diverse situation of agro-ecology, topography climate, soil condition, river basing, mountains, lagoons, beaches, natural vegetation and wild life etc. Combination of all these forms a good resource base for tourism, agriculture and industry. All the seresources lie mainly in rural areas.

Human Resources

However, the biggest resource in the rural sector is the human resource. 79% of the country population live in rural areas. Therefore, the majority of the work force of the country also engage in the rural sector.

There is no major deference in the literacy rate between urban and rural sector. Work force in rural sector possess mainly the agriculture related skills. Majority of the rural labour force is considered as unskilled workers.

Also they have the skills of traditional craft. However, ski''s related to modern sector are rather limited in rural areas.

Educated unemployed youth can be considered as the major resources in the rural sector. Today they posses general education qualifications without any marketable skill. However this group can be easily trained in modern skills as their educational level is high. If the necessary technical and entrepreneurial skills are provided the educated youth will be a good production resource for the rural and as well as the national economy. They need modern skills, information, incentives, ideas, technology and guidance according to the present day opportunities. If they learn about modern cultivation practices , packaging, quality production, marketing techniques etc. they can help to diversify the village economy. If entrepreneurial skills are provided they can bring a substantial change in the rural economy.

Also the skills of traditional crafts have not been fully utilized. Their skills can be improved and combined with modern production and marketing techniques.

Women labour is another resource that can be used for development of cottage industries.

Capital

There is a capital owned class in the rural sector. (Land loards, Mudalalis, Contractors, rich farmers etc.). Their capital is yet to be utilized for development of the rural areas. So far their investments are only on traditional activities such as acquiring land, trading, constructing large houses or acquiring consumer durables. Perhaps, surplus is transferred to urban areas. This capital own class and their capital is a good resources if it is mobilized in the proper direction. This capital can be utilized for agro-processing and other value added activities of the rural sector.

Rural Middle Class.

Rural middle class, specially the government servants who live in rural areas are a good resources. They can bring new ideas and mobilize out side resource to change the rural life and the economy.

Institutional Resources

Rural sector is served with a goodi network of political, administrative and social institutions. These institutions can mobilize local as well as out side resource for the development of rural areas. (Provincial Councils, Local Authorities, Divisional Secretariats, Co-operative Societies, non government organizations, community based organizations etc.)

Agriculture Resources

Agriculture resources of the rural sector are still under utilized. (land, irrigation schemes, livestock, agriculture products, Plantation crops etc.). Land is not intensively used, irrigation facilities are not optimally used, no value added activities on agriculture products. These resources can be harnessed to increase the production, productivity and employment opportunities in the rural sector.

Mineral Resources

Mineral resources of the country are some what limited but cover a variety of potentially exploitable minerals like mineral sand, clay, gem stones, lime stones, graphite, feldspar, salt etc. However, quality, quantity processing aspect and marketing prospects of these minerals have not adequately studied.

Resources for Tourism

Sri Lanka is rich with resources for tourism. Natural beauty of the country, historical monuments, socio-cultural diversity, reservoirs, beaches, wild life, climate etc. has not been harnessed properly for the development of the tourism. Rural sector can be benefitted a lot from the tourism if these potentials and resources are harnessed.

Infrastructure

Rural areas of the country is served with dense net-work of rural roads. Basic facilities for health, education, communication etc. available.

How to identify Projects to suit the requirements of the micro and small scale sectors. What aspects should be looked into.

Prepared by : Mrs R S Goonetilleke

Project Cycle

Since financial resources are specially scarce in developing countries, certain priorities/capital rationing have to be made so as to select the best productive enterprises that would adequately accomplish the country's economic needs. Therefore the role of financial institutions specially banks involved in development financing is very important to identify, promote, finance and also assist in the implementation of such projects. As such, it is apparent that these institutions are involved in a series or cycle of activities which is commonly referred to as project cycle. The project cycle could therefore be described as a series of activities or steps that a project is subjected to from conception to implementation.

The project cycle could be broadly classified into 3 stages, i.e Project Planning, Project Implementation and Project Operations. The series of activities under these 3 stages are classified below.

Project Planning - Identification
- Preparation
- Appraisal

Project Implementation - Financing
- Documentation
- Legal formalities
- Construction/Installation
- Start up

Project Operation - Follow-up work
- Supervision
- Monitoring

Project Planning

Project planning is the first phase in the project cycle. The planning process commences with the search for ideas to identify a particular project. The purpose or the need to identify is, to determine those projects that are of high priority contribution towards the economic development of the country.

(i) <u>Project Identification</u>

One would identify a project only by searching for project or project ideas. Some approaches that may be adopted in the process of searching for project ideas are given below.

a) <u>Felt Need Approach</u> Based on the needs of various people. Projects that emerge from this approach usually offer solutions to urgent problems. A major deficiency in this approach is the incapability of people to verbally express their needs due to scarce chances for same.

b) <u>Demand Analysis Approach</u> - Based on the potential demand for goods and services. Usually, a detailed market analysis is done including an assessment of the potential for import substitution. Perhaps, in this method the scope is limited to marketable goods.

c) <u>Resources Approach</u> Based on the utilization of resources such as minerals, indigeneous raw materials, land, skills of people etc.

d) <u>Technology Approach</u> Based on application of technology found to be feasible in other areas but not yet applied in the region.

e) <u>Strategy Approach</u> - Based on the development plan of the country. This is the most preferred approach since the bottlenecks expected or identified in a country's development plan indicate investment opportunities. Further a country's development plan indicates the details of the priority projects/sectors.

The government planners study the various sectors of the economy and determine which sectors are of high priority for the country. Occassionally bankers and development bankers could identify such projects and bring same to the notice of planners. Especially projects of backward or forward integration, may emrge as a result of existing projects.

Since recently, a new element has been introduced in development financing to ascertain priority projects i.e the social aspect of a project. It is stated that the benefits of economic development should accrue more to the poorest sector of the economy. It should be determined as to which sector within the economy gets the benefits and the higher the benefits to the poorer sector of the economy, the better the social benefits of the project. Presently, the World Bank and ADB have undertaken studies on how to measure the social indicators of a project.

Some of the projects that may be determined as priority projects in developing Asia and Pacific region as listed by Luis V.Z Sison, former Deputy Director of projects Department of Asian Development Bank includes some or all of the following.

a) projects related to food production - in order to achieve self-sufficiency in food and thereby save foreign exchange which would otherwise be used in importing food;

b) projects that earn foreign exchange like export products and services and tourism;

c) projects that create more employment per capital invested, specially in relation to the foreign exchange component of capital;

d) projects that use more indigenous raw materials and semi-processed goods, to save foreign exchange and to create a domestic market for them;

e) projects that introduce new and appropriate technology into the country;

f) projects that generate energy from non-oil sources, like mini-hydro, coal etc and;

g) projects of small and medium-scale that can be set up in the rural areas to develop entrepreneurship and to spread out employment and economic activities into the countryside to reverse or slow down the rural-urban migration.

(ii) <u>Project Preparatio</u>

After project identification in this stage the planner has to set the basic parameters of the project idea. In this stage the project really gets developed and moreover in this stage the dialogue between the project proponent and the bank begins. This phase covers all the necessary steps to make the project a bankable proposition. Areas that should be looked into at this stage covers the following.

STEPS IN SETTING UP A PROJECT

The various steps involved in setting up a project (enterprise), will be most complex when it relates to an industrial unit. The steps in setting up a small industrial enterprise shall be :

a. Deciding to go into business. This is the most crucial decision a youth has to take, shunning wage-employment and opting for self-employment / entrepreneurship.

b. Analyzing Strengths / Weaknesses. Having decided to become an entrepreneur the young person has to analyses his / her strengths/ weaknesses. This will enable him/her to know what type and size of project would be most suitable. This will vary from person to person.

c. Product Selection. The next step is to decide what business to venture into, the product or range of products that shall be taken up for manufacture and in what quantity. The level of activity will help in deciding size of business and form of ownership. One could generate a number of project ideas through environmental scanning, short/list a few items, closely examine each one of these and zero on to a final products.

d. Market Survey. It is very easy to manufacture an item but difficult to sell. So it is prudent to survey the market before embarking upon production and satisfy the product chosen is in demand; changes in product design required, determining demand-supply gap, extent of competition, your potential share of the market; pricing and distribution policy etc.

e. Form of Ownership. A firm can be constituted as proprietorship, partnership, limited company (Public or Private), Cooperative Society, etc. This will depend upon the type, purpose and size of your business. One may also decide on the form of ownership based on resources on hand or from the point of saving on taxes.

f. Location. The next step will be to decide on the place where the unit is to be located. Will it be hired or owned? The size of plot and covered area and the exact site will have to be decided.

g. Technology. To manufacture any one item various processes are available. Information on all these available technologies should be collected and the last one identified. This will be useful in determining the machinery and equipment to be installed.

h. Machinery and Equipment. Having chosen the technology, the machinery and equipment required for manufacturing the chosen product's have to be decided, suppliers identified and then costs estimated. One may have to plan well in advance for machinery and equipment especially if it has to be procured from outside the town, state or country that is, have to be imported.

i. <u>Project Report</u>. The economic viability and technical feasibility of the product selected has to be established through a project report. A project report that may now be prepared will be helpful in formulating the financial, production, marketing and management plans. It will also be useful in obtaining finance, power, registration, raw material quotas etc.

j. <u>Finance.</u> An entrepreneur has to take certain steps and follow specified procedures to obtain finances. a number of financial agencies will give loans on consessional terms. Eg. Small scale and Medium scale loans schemes and other refinance schemes and subsidies are available which obviate the need for margin money.

k. <u>Power Connection.</u> The site chose should either have adequate power connection or this should be arranged now.

l. <u>Installation of Machinery.</u> Having arranged finance, buildings, power etc. the next step is to procure the machinery and begin its installation.

m. <u>Recruitment of Manpower.</u> Once machines are installed manpower will be required to run them. So the quantum and type (skilled, semi-skilled, unskilled administrative etc.) or labour have to determine, sources of getting desired labour identified and labour/staff recruited. Possibly the labour has to be trained either at the entrepreneur's premises or in a training establishment.

n. <u>Raw Materials.</u> The labour will be required raw materials to work upon the installed machines. The raw materials required may be available locally or may have to be imported. Government agencies can assist if raw material required are scarce or imported.

o. <u>Production.</u> The nit established should have and organizational set up. That is the structure of the manpower proposed to be employed must be determined. This ensure smooth and effective running of the unit. There should not be any wastage of manpower, material or machine capacity installed. If items produce are exported then the product and its packaging must be attractive.

Production of the proposed items should be taken up in two stages :

a. Trial production
b. Commercial production

Trial production will help teaching problems confronted in production and test marketing of the product's. This will reduce chance of losses in the eventuality of mistakes in project conception. Only after sucessfully launching the product at test market stage should commercial production be commenced.

p. <u>Marketing.</u> Having manufactured the product, the stage comes to sell it. This is called marketing. Various aspects like how to reach the customer, distribution channels, commission structure, pricing, advertising/publicity etc. would have already been decided upon at market survey project fomulation stage.

Like productin, marketing should initially be attempted continuously, that is, in two stages :

a. Test marketing will save the enterprise from going into distrepute just in case product launched is not well accepted in the market. It will also assist in carrying out modifications additions in design characteristics features of the product.

Having successfully test marketed the product/s commercial marketing can be undertaken.

q. <u>Quality.</u> After or, at times, before marketing the product, quality certification depending upon the product's should be obtained. If there are no quality standards specified for the product's the entrepreneur should evolve his/her own quality control parameters. Quality, after all, ensures long-term success.

How to appraise a Project with a positive approach.

Prepared by : Mrs R S Goonetilleke

Project Appraisal

Project appraisal is a comprehensive and systematic review of all the functional aspects of the project to ensure proper selection of projects with adequate financial and economic selection. Usually, appraisal is carried out by the bank staff to ensure that the project is adequately prepared, or else their money is at stake. Basically project appraisal reviews the project features with respect to the lending institutions criteria.

During appraisal primarily the credit worthiness of the project proponent has to be established. If the project is an expansion or diversification, past accounts analysis, production and sales performance, management evaluation help to establish the borrower's credit worthiness. In addition a Banker's opinion letter is obtained from the borrower's bankers. However, in the absence of such data for a new project proposal, the credit worthiness of the borrower is established via discussions, performance of other similar business ventures in the sector as well as borrowers investment in other business enterprises.

In appriasing the project to determine the feasibility of the project systematical approach can be achieved by considering main aspects which can be listed as follows.

a) - Technical analysis

b) - Market analysis

c) - Economic analysis

d) - Financial analysis

e) - Management analysis

The project appraisal involves checking on these requirements and probing for weaknesses in these aspects. The neglect of major weaknesses in any of these aspects could lead to serious problem in carrying the project through its construction and operational stages.

Technical Appraisal

Most elements in the project cost are firmed up through technical appraisal. It encompasses a wide area from the product to be manufactured to the process of manufacturer, machinery required, requirement of buildings, land, manpower requirement, utilities required for the project such as power, water, discharge of effluents etc.
This stage also looks into the technical knowhow required for the project, the method of obtaining the technical knowhow, the cost involved, training needs of personnel and production inputs etc.

It is important that although a project may be technically feasible in terms of availability of physical facilities required for production, it does not justify its implementation until all the other aspects of appraisal also proved to be feasible.

Market Analysis

The specific objective of the appraisal of projects marketing viability is to know what questions to raise in evaluating a marketing programme proposed by a project proponent (Dr E L Robesto - 1985). Probing in to the following areas will provide the details necessary for the evaluation.

- product / product - mix
- Aimed market segment
- Sales promotion & advertising
- Channels of distribution
- Marketing programme

At the outset of the market analysis, appraisal officer has to distinguish among the different types of marketing, such as

- consumer product marketing
- commodity marketing
- Industrial marketing
- service marketing

he market appraisal and technical appraisal can take place imultaneously in order to save time in appraisal.

c) **Economic Appraisal**

Traditionally the main consideration of a project is the commercial profitability. However the economic aspects also have to be investigated to determine the profitability of the project from the country's point of view. Therefore it is essential to analyse whether the project fits into the development strategy of the country. Therefore calculation of the Economic Rate of Return. value added within the economy; employment created and the cost per such employment opportunity created, social impact of the project are essential as to ascertain which sector gets the benefit.

d) **Financial Analysis**

Financial Analysis aimed at various objectives depending on the point of view of the analyst. Generally this is aimed at ascertaining the profitability and liquidity. Financial projections include profitability estimates, cash flow estimates and projected balance sheets. They are inter-related and prepared on the basis of cost of the project, sources of finance and various assumptions of profitability estimates.

It must be noted that care should be taken in selecting the assumptions to be used if the projected estimates are to be achieved. Otherwise prospective investors and bank could be committed to utilize funds for projects which are intrinsically unsound due to the optimistic assumptions made.

It is not always possible to achieve the actual results exactly to coincide with the estimated projections. However profitability ratios, liquidity ratios, debt service coverage ratio, breakeven point, internal rate of return and many other ratios are calculated on the basis of financial projections to assess the viability of the project. If the financial projections go wrong and the estimated surplus will not be available with the project, the repayment of the term loan may face problems. Therefore seperate profitability estimates are prepared with the expected changes in assumptions to ascertain whether the project remains viable even after the changes in assumptions. This type of analysis is called sensitivity analysis and it indicates the degree of sensitivity of project on various meters (Sarda- 1983).

Management Analysis

This area of project feasibility analysis is deals with the requirement of management for the conception and eventual operations of the project, the staffing requirements at various stages of the enterprise and the organisational structure of the unit.

This is the most critical and difficult aspect to appraise. One may have a well conceived project but if not properly managed, the whole project may fail. On the contrary, a project which financially marginally viable, if well managed may be converted into a viable project. It has been observed that most consern reason for failure of enterprises is management. Though favourable market prospects are existed, the engineering of the project is carried out. sound financial plans are prepared, every project will ultimately succeed or fail on the quality of management. While effective management can make a weak project survive a project which would indicate otherwise very viable has little chance of success if it does not have proper management team.

The appraisal of management aspects is an art rather than a science. One has to rely on personal judgement based on experience of men and affairs. The development of behavioural sciences may provide better means of appraising management (Sison, 1985).

Technical Appraisal	Commercial Appraisal – Marketing	Financial Appraisal	Economic Appraisal – Social Cost – Benefit Analysis	Management Appraisal
1. Manufacturing process/ technology 2. Technical arrangements 3. Size of the plant 4. Product – mix 5. Selection of plant and machinery 6. Procurement of plant and machinery 7. Plant lay out 8. Location of the prajeject (a) Land (b) Raw maierial (c) Market (d) Labour (e) Utilities such as water, power, fuel etc. (f) Effluent disposal (g) Transportation (h) Community insfrastructure (i) Development of other industries 9. Schedule of project implementation	1. Demand – Techniques of forecasting (a) Import substitution (b) Past trend method (c) End–use method (d) Correlation and regression (e) Export market 2. Supply – depth of competition 3. Pricing policy 4. Life cycle of the product 5. Brand name for the product 6. Packing and transport 7. Distribution channels 8. Sales promotion (a) Salesman (b) Advertising (c) Servicing 9. Sources of market information 10. Publications useful to study various aspects of marketing	1. Capital cost of projects (a) Land and site developments (b) Buildings (c) Plant and machinery (d) Engineering and consultancy fees (e) Miscellaneous fixed assets (f) Preliminary and pre-operative expenses (g) Provision for contingencies (h) Margin money for working capital 2. Sources of finance 3. Financial projections (a) Profitability estimates (b) Cash flow estimates (c) Projected balance sheets 4. Ratio analysis (a) Debt–equity ratio (b) Current ratio (c) Debt–service coverage ratio (d) Margin on security (e) Other ratios 5. Break–even point 6. Discounted cash flow techniques (a) Net present value (b) Internal rate of return	1. Ratios for economic appraisal 2. Economic rate of return (a) OECD method (b) UNIDO method 3. Exchange rate of the project or domestic resources cost 4. Comparative study of financial rate of return and economic rate of return	1. Qualities of an entrepreneur (a) Honesty & integrity (b) Involvement in the project (c) Financial resources (d) Competence (e) Risk taking (f) Initiative (g) Intelligence (h) Drive aud energy (i) Self confidence (j) Frankness (k) Patience 2. Various forms of organisations (a) Proprietary concern (b) Partnership firm (c) Corporate sector (i) Board of Directors (ii) Committee of Board (iii) Chief Executive (iv) Other Executives 3. Organisational set up 4. Management problems

TRAINING PROGRAMME ON PROJECT IDENTIFICATION AND ENTREPRENEUR DEVELOPMENT FOR BANKERS
PROGRAM EVALUATION

(1) Which best describes your reaction to the seminar :-

The seminar was: ☐excellent ☐very good ☐fair ☐poor

Module 1

The material was: ☐very clear ☐moderate ☐not clear.

The instructor was: ☐excellent ☐very good ☐fair ☐poor

The pace was: ☐about right ☐too fast ☐too slow

Module 2

The material was: ☐very clear ☐moderate ☐not clear.

The instructor was: ☐excellent ☐very good ☐fair ☐poor

The pace was: ☐about right ☐too fast ☐too slow

Module 3

The material was: ☐very clear ☐moderate ☐not clear.

The instructor was: ☐excellent ☐very good ☐fair ☐poor

The pace was: ☐about right ☐too fast ☐too slow

Module 4

The material was: ☐very clear ☐moderate ☐not clear.

The instructor was: ☐excellent ☐very good ☐fair ☐poor

The pace was: ☐about right ☐too fast ☐too slow

Module 5

The material was: ☐very clear ☐moderate ☐not clear.

The instructor was: ☐excellent ☐very good ☐fair ☐poor

The pace was: ☐about right ☐too fast ☐too slow

Module 6

The material was: ☐very clear ☐moderate ☐not clear.

The instructor was: ☐excellent ☐very good ☐fair ☐poor

The pace was: ☐about right ☐too fast ☐too slow

(2) Would you recommend this program to others ? ☐Yes ☐No

(3) What areas covered do you feel will be particularly beneficial to your performance in your job ?

....
....
....
....

(4) Will this program help you to assess the entrepreneurial qualities of your clients ?

(5) Do you feel the information covered will help you to communicate more effectively with your clients ?

...........Yes ....Somewhat

...........Unsure ....Not especially

(6) Overall, how would you rate the financial sophistication of your clients ?

...........Highly sophisticated .... Somewhat sophisticated

...........Unsure .... Unsophisticated

(7) Do you feel your clients would benefit from participating in a similar course ?

...........Yes .... Somewhat

...........Unsure .... Not especially

(8) What topics were not covered that you feel would be beneficial to your business banking responsibility ?

....
....
....
....

PERSONAL ENTREPRENEURIAL CHARACTERISTICS/TRAITS

Prepared by : W.A.J. ANTON FERNANDO

Who is an entrepreneur?
There are two types of entrepreneurs. Professional entrepreneurs and business entrepreneurs.

Why only few can achieve entrepreneurship.
It is impossible for everyone to be an entrepreneur. It is a gift that you give to yourself which needs initiative, commitment, sacrifice and patience.

One cannot achieve entrepreneurship at once. There has to be many drawbacks and failures. Only about 2.5% of the total population will have courage, confidence and patience to stand up to such failures and drawbacks. This minority are the individuals who possesses entrepreneurial traits or characteristics.

Entrepreneurial traits of different individuals could be identified by watching them carefully. Also it is possible to identify your ow entrepreneurial qualities by analyzing your own decision, activities, approaches etc.

These characteristics were identified by many sociologists and psychologists. Early sociologists such as Winter Bottom and Max Weber identified these qualities in Protestant societies. They even linked these special traits that were there in Protestant societies to "Industrial Revolution".

But the latest and well known writer who wrote about these traits was Prof. David Macleleond from Havard University. He put forward his theory in a publication called "Achieving Society".

What is this Achieving Society? They are the individuals who achieve what they want, every thing that they want. They change governments, they change laws, rules and regulations and everything and anything to achive their needs.

There are many characteristics unique to each entrepreneur but there are also some identified common characteristics.

1. Risk taking ability.
   Are you prepared to take a risk or make a risky decision which will either put you down to the bottom or take you to the top of the ladder. When entrepreneurs takes these decisions they analyze, gauge and correctly estimate the possible outcome or consequences.

2. Persistence - Consider constraints and obstacles as challenges - How can you do it - Make personal sacrifices

or make an extraordinary effort to complete a job undertaken.

3. Accept full responsibility for all your activities.
   Do not try to Pass the Buck.

4. Demand for efficiency and quality.
   Try to achieve a level which others do not even think.
   Strive to do things better, faster and cheaper.

5. Information seeking - This has to be two fold. Seek information and knowledge about what you do - enhance your educational levels, knowledge and experiences.

   Also seek information about your weaknesses, shortcomings listen patiently to customer complaints, suggestions and try to avoid room for such complaints.

6. Self confidence. Things are only possible if you think it is possible. Madam Curie has processed and tested more than 1000 metric tons of chemicals and other materials to obtain or identify one milligram of radium.

   Have confidence in your own ability to complete a difficult task or to meet a difficult challenge.

7. Opportunity Seeking - Don't wait for opportunities to come to you but go on seeking opportunities.

   - Also grab unusual opportunities which others ignore or dare to look at.

8. Leadership - Only few are leaders and others follow while leaders lead. Entrepreneurs do not wait others to lead them instead they assume leadership.

9. Goal setting - Set clear and specific goals and achieve same some how.

10. Persuasion and networking.
    Use deliberate strategies to influence or persuade others.

    Use business and personal contacts to accomplish own objectives.

11. Punctuality - Entrepreneurs are always punctual and they manage the time beautifully. This ability to manage time gives them ample opportunities to plan and think systematically and work according to own plans.

12. Self Control - They are well disciplined in all their business transactions, specially with regard to finances.