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# PREPARING PROJECT REPORTS FOR FINANCIAL ASSISTANCE

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## 1. INTRODUCTION

Project as understood by Industrial Development Corporations, Financial Institutions and Promotional Organisations, is a proposal for creation of productive capacities for manufacturing goods or providing services. When an individual desires to start an enterprise he conceives a project in the form of an idea. In his effort to test his idea and to face the challenges involved in implementation of the project, he, thanks to initial enthusiasm, often fails to notice the blind spots in his proposal and rushes into action without adequate preparation. The biggest advantage of a project report is that it enables him to look at the proposal in a dispassionate, objective light and encourages him to search for solutions with reference to pitfalls in his proposal.

In order to succeed in his venture, it is necessary for the entrepreneur to clearly understand various processes which are necessary for setting up and managing a new industry / business venture. These processes basically involve disciplined thinking and advance planning. The entrepreneur need to make a pragmatic assessment of favourable and unfavourable factors effecting the concived project in short and long run. This assessment is generally termed as project planning

Project Planning envisages preparation of concrete plans regarding setting up of a project. The project planning activities will include mobilising resources, designing managerial systems and selection of

appropriate technology etc. Project report is one of the most important tools of project planning

There are various phrases in vogue to refer to project report document. These are:

- Business Plan
- Feasibility Report
- Techno-Economic Feasibility Report
- Viability Report

## 2. PROJECT REPORT AND ITS UTILITY.

A project report needs to cover from very general information to detail examination of specific issues relating to entrepreneur's profile with special reference to his academic qualifications, past experience and competence, comprehension and confidence, market demand and existing sources of supply of the products proposed to be manufactured, technological know how requirement, plant and machinery, cost of production, profitability and financing pattern etc. Most of the entrepreneurs are known to be doing this exercise in one way or the other but not necessarily in the way it is required to be done.

The project report fulfils a variety of purposes. These purposes are as follows:

- It helps an entrepreneur in judging the viability and profitability of a given enterprise proposal. If it reveals a proposal to be invisible, the entrepreneur will avoid a grave error of investing in an unsound venture,

- It helps in approaching District Industries centre for obtaining provisional/permanent registration.
- It forces an entrepreneur to think and plan for future which at that particular moment does not involve any finance.
- It gives an entrepreneur a general idea of his resource, requirements and means to procure them.
- It is an essential document to procure assistance from financial institutions, securing supply of scarce raw material, land / shed and to fulfill other formalities for the implementation of the project.
- It aids the process of fining up technical arrangement, choosing a location, selecting plant and machinery, determining manpower and utility needs and other enterprise parameters and this prepares ground for project implementation.

Thus a project report helps an entrepreneur in visualising financial rewards, needs, commitments and actions.

### 3. WHO PREPARES THE PROJECT REPORT ?

Some of the entrepreneurs feel that they can relieve themselves of the botheration of preparing a project report by engaging a consultant. But experience in developing entrepreneurs has convinced us that well perceived, well made project report by the entrepreneur himself is helpful to him while running the industry/ business venture. This is so because, the process of preparing the project report enables an entrepreneur to interact with realities and makes him aware of what is expected in future when he actually implements the project.

Therefore, even if an entrepreneur chooses to take the help of a consultant, he must involve himself in preparation of the project report.

### 4. WHAT DO FINANCIAL INSTITUTIONS, DEVELOPMENT

### CORPORATIONS AND CONCERNED GOVT. DEPARTMENTS LOOK FOR IN THE PROJECT REPORT ?

The above organisations, departments and agencies have to appraise the project in order to evaluate the following aspects :

- i) Managerial and entrepreneurial capabilities of the entrepreneur:

A project report should contain information such as family background, educational qualifications, past experience of service, business or industry, interest in other firms and innovative ideas of promoter[s] so as to enable financial institutions to assess managerial and entrepreneurial capabilities of the individual. It is not necessary that entrepreneur should possess all managerial and entrepreneurial traits and perform all the functions himself. He should either be in a position to perform all such functions himself or should be competent and resourceful enough to hire and use the required managerial resources. Project report should, therefore, mention about the managerial structure of the enterprise.

- ii) Socio-economic Benefits :-

Financial institutions receive large number of requests for sanction of loans. In view of limited availability of financial resources, financial institutions would like to finance those projects which are relatively better than others in terms of socio-economic benefits likely to accrue out of the implementation of the proposed projects. Normally, the following criteria is used while appraising a project for socio-economic benefits.

- The project should create adequate direct and indirect employment.
- The project should comply with the national priorities identified like hi-tech, environment friendly, export oriented, import substitute etc.
- The investment in the project should

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result in adequate cash generation which is higher than the inflationary rates anticipated.

iii] Present and Future Demand of the Product[s]

An enterprise can service provided its goods and services can easily be marketed in adequate quantity. Then and only then the entrepreneur can repay back the loan taken from financial institutions. A project report should thus have all that information which could help in identifying the size of present demand, gap between present demand and supply and future potential of demand of the proposed products or services. It is, therefore, suggested that the report should contain the following informations.

- The size and composition of present demand
- Market Segment[s] identified for the proposed venture. (The market segmentation may be done on the basis of income, age and sex of consumers, geography of the area etc).
- Short and long term demand projections of the overall market and of the segment[s] identified for the proposed project.
- The market penetration rates that the proposed unit is expected to achieve over the projected period.
- Broad pricing structure.
- Strategy of marketing in target markets.

iv] Technical Feasibility :-

The following aspects need to be covered in the report for establishing the technical viability of the project.

- Process Technology :- Certain products can be manufactured by way of using alternative manufacturing technologies. The choice and suitability of particular manufacturing technology identified by the entrepreneur for his project should be justified in the project reports.
- Economic size of the unit :- For each project there exists a certain minimum economic size below which the project will not be viable. Installed capacity of

the project should be more than the size of minimum economic unit.

- Technical know-how and consultancy :- Certain projects need sophisticated technologies and project consultants. Arrangements made for technical knowhow and project consultants identified for implementation of the project may be mentioned in the project report.
- Suitability and adequacy of plant and machinery, basis of selection, reasonableness of cost and availability of components etc.
- Requirement of technical personnel and their availability.
- Plant location, site selection, proximity to target market, raw material sources, availability of infrastructure facilities etc.
- Scope for diversification in some other direction.

v] Financial Viability :-

An entrepreneur conceives the project idea with the ultimate objective of making profit. Therefore, the benefits likely to accrue out of implementation of the proposed project are required to be shown with the help of financial statements and ratios. The statements and ratios should be so explicit that financial institutions and concerned agencies can easily assess the financial viability of the project.

The financial viability of the project is established when in the judgement of the promoters, other investors and financial institutions the profitability is adequate.

A project should comply with all the above broad feasibility/viability criteria. However, a project report need not necessarily cover all the above aspects. The depth and coverage of the above feasibility aspects could be planned in accordance with the purpose of preparation of the report and the size of investment in the project. The preparation of project report may not cost too much to the entrepreneur but a well made project report will definitely serve the

desired objectives.

A project report is not a document covering precise details especially in respect of financial and economic viability. It is essentially a projection of performances based on certain assumptions. Most of the

long term projections have some weaknesses and suffer from limitations. Similarly, project report may have certain limitations and should be used carefully.

References: A manual on How to Prepare a Project Report, EDI [I], Ahmedabad.



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