

# Project Appraisal

# Meaning

- The exercise of project appraisal simply means the **assessment of a project in terms of its economic, social, and financial viability.**
- This exercise is critical as it calls for a multi-dimensional analysis of the project that is, a complete scanning of the project.
- Financial institutions and banks make a critical appraisal of projects which are submitted to them by the entrepreneurs for getting loans.

# Scope of appraisal

- Choice of **technical process** and/or appropriate technology.
- **Size and scale** of operations
- **Locational aspects** of the project and availability of **infrastructural facilities**.
- Selection of **plant, machinery and equipment**.
- **Plant layout** and factory buildings
- Determination of project **cost** estimates, **profitability** projections etc.

## *Project Appraisal Format*

<i>Criteria</i>	<i>Project-I</i>	<i>Project-II</i>	<i>Project-III</i>	<i>Project-IV</i>
1. Investment size				
2. Location				
3. Technology				
4. Equipment				
5. Marketing				
6. Power & Water				
7. Others' performance				
8. Working capital needs				
9. Labour component				
10. Economic viability				
Total				

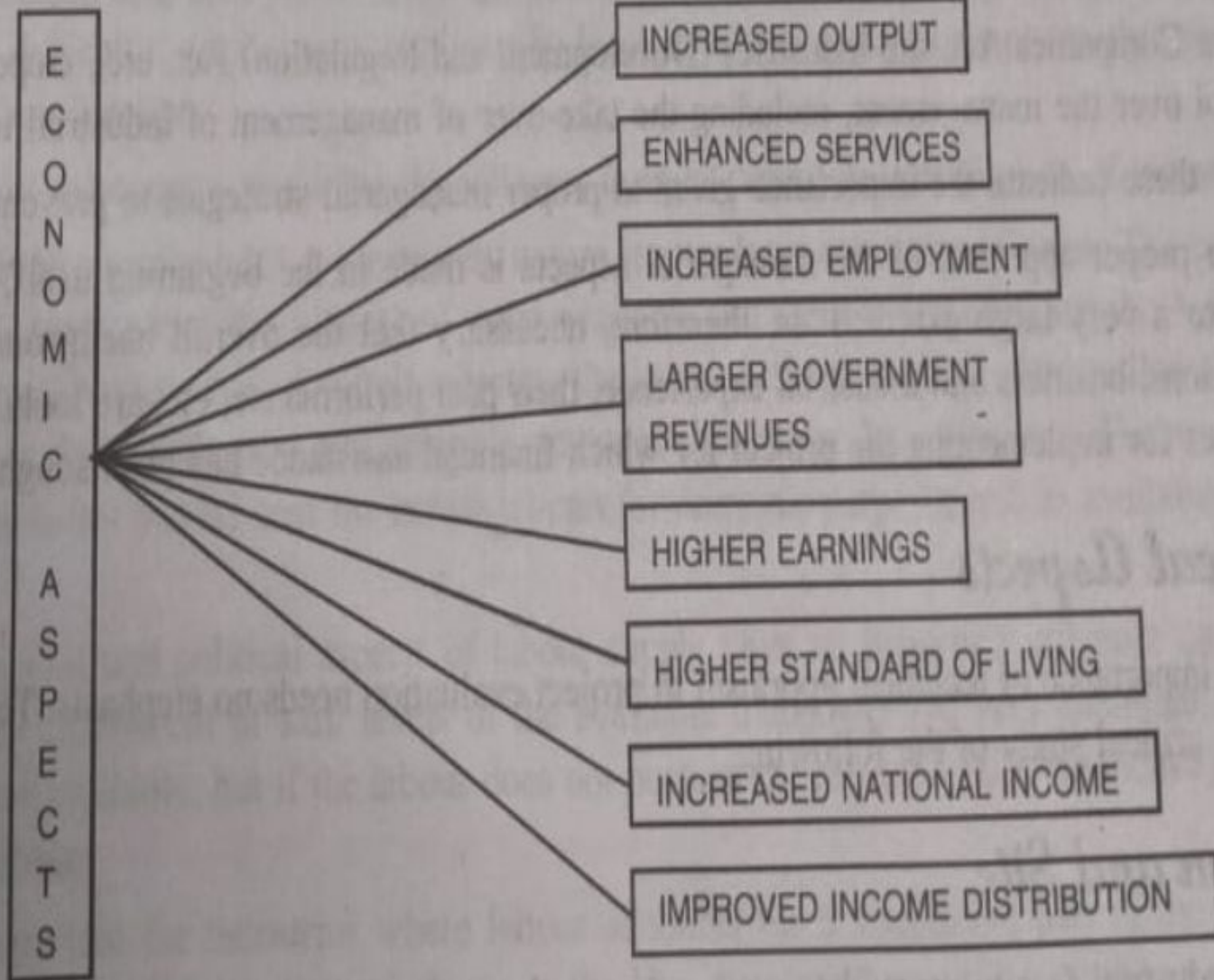
Point Scale: A = 5 points; B=4 points; C=3 points; D=2 points; E=1 point.

# Steps followed in project appraisal

1. Economical- indicates priority use.
2. Technical-involves scale of the project and the process adopted.
3. Organizational- suitability is examined
4. Managerial- adequacy and competence are critically scrutinized.
5. Operational-capability of the project.
6. Financial- determines the financial viability for sound implementation and efficient operation.

# Economic Aspects

- Bank will not finance a project unless it stands assured that the project represents a high-priority use of a regions resources.
- The economic benefits brought about by a successful project normally take the form of an increased output of goods or services. This increased production will also generate many different forms of additional income.
- Quantify projects in terms of cost and benefit.



# Technical aspects

- The need of technical appraisal in project evaluation need no emphasis. It involves a critical study of the following:-

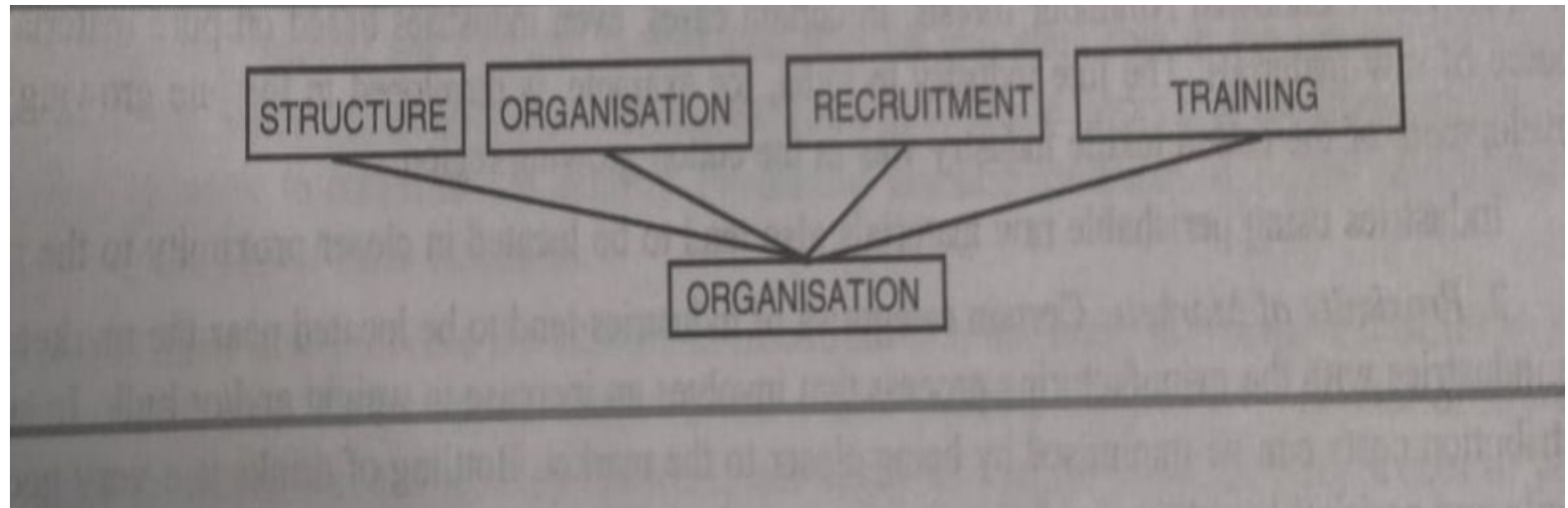
## **Location and site**

- Raw material supplies
- Proximity of markets
- Transportation facilities
- Power and fuel supplies
- Water
- Manpower and many more.



# Organizational and managerial Aspect

- As a lender and a development institution, the bank places particular stress on the need for and efficient organization and responsible management for the execution of the project.



# Financial Aspect

- The financial aspect of project appraisal covers the following areas:-
- Cost analysis
- Pricing
- Financing
- Income and expenditure

