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St. Mary's University College

School of Graduate Studies

MBA Program

*Analyzing the Cause of Failure of Projects Financed by
Development Bank of Ethiopia*

BY

Abdulrazak Ahmed

December, 2018

Addis Ababa, Ethiopia

*Analyzing the Cause of Failure of Projects Financed by
Development Bank of Ethiopia*

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of Graduate Studies in Partial Fulfillment of the
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Administration**

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**December 2018
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SCHOOL OF GRADUATE STUDIES
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ACRONYMS/ABBREVIATION

DBE	Development Bank of Ethiopia
BOM	Board of Management
EMC	Executive Management Committee
PMBOK	Project Management of Knowledge
PMI	Project Management Institute
PM4DEV	Project Management for Development
RPN	Risk Project Number
NPL	Non-Performing Loan
NBE	National Bank of Ethiopia
CRM	Customer relationship Manager
IRR	Internal Rate of Return
NR	No response (Neutral)

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Abstract

Development Bank of Ethiopia is a bank which provides finance for investment projects. According to the annual performance report of (2017), DBE reported a significant decline in net profit for a second year in a row as the Non-performing Loans(NPLs) ratio of the bank increased from 16% to 25% as June 2017. This indicates public money is in danger. Hence the purpose of this study is to identify the major causes of failure of projects financed by DBE. The study employed descriptive research approaches to achieve the intended objective. The study applied the method of non-probability purposive sampling design to extract sample members from the target population. The non-probability sampling method is suitable to handle the descriptive research with qualitative data. It also helps to choose the respondents that are suitable for the study plan. Analysis was conducted on both primary and secondary data collected. The questionnaires analyzed quantitatively using SPSS version 20 software to determine percentages. The result revealed that diversification of the fund allotted for the project to other unintended purposes by the customer without the knowledge of the bank is found to be the major problem of the bank. Second, the poor follow-up of the projects financed by the bank in other words not having strict and tight control on the progress of the projects where as in some cases not even know site of projects are in fact found to be the other major cause of project failure concluded from the study. Poor project planning leads to wrong credit decision and to unrealistic loan repayment schedule. This means, insufficient funding halts the project progress. Unrealistic loan repayment which the project cannot generate, are main causes of project failure as concluded from the findings. I also conclude from the study that training of credit officers is an important factor that enables officers to handle big projects and protect public funds from failed projects.

Key Words: Project Failure, Non-performing Loan, Development Bank of Ethiopia.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

There are a number of development banks around the world under different policies in various countries. As the name development indicates, all development banks involved in actively participating in a country's economic development by providing finance for private, and public projects. It also provides support for government priority development programs. Development Banks are well known by financing long term loans for new projects and existing expansion projects. (source: Development Bank of Ethiopia)

According to PoojSolanki(2016), development bank is essentially a multi-purpose financial institution with a broad development outlook. A development bank may, thus, be defined as a financial institution concerned with providing all types of financial assistance (medium as well as long term) to business units, in the form of loans, underwriting, investment and guarantee operations, and promotional activities and economic development in general, and industrial development, in particular. In short, a development bank is a development-oriented bank. Main functions of Development banks would include:

1. It is a specialized financial institution.
2. It provides medium and long term finance to business units.
3. Unlike commercial banks, it does not accept deposits from the public.
4. It is not just a term-lending institution. It is a multi-purpose financial institution.
5. It is essentially a development-oriented bank. Its primary object is to promote economic development by promoting investment and entrepreneurial activity in a developing economy. It encourages new and small entrepreneurs and seeks balanced regional growth.
6. It provides financial assistance not only to the private sector but also to the public sector undertakings.
7. It aims at promoting the saving and investment habit in the community.

8. It does not compete with the normal channels of finance, i.e., finance already made available by the banks and other conventional financial institutions. Its major role is of a gap-filler, i. e., to fill up the deficiencies of the existing financial facilities. Its motive is to serve public interest rather than to make profits. It works in the general interest of the nation” (PoojSolanki, 2016).

Development Bank of Ethiopia (DBE) which established in 1907 is a specialized state owned development financial institution, which is supervised by the Public Financial Enterprises Agency. A Board of Management (BOM) consisting of seven senior government officials administers the Bank. The President of the Bank also attends the regular meetings of the BOM as a non-voting member. The two top bodies (Public Enterprises for Financial Agency (PEFA) and BOM are, among others, responsible for issuing major policies of the Bank, approval of its strategic and operational plans as well as the close and regular monitoring of the Bank’s operations. The top Executive Management Committee (EMC), which consists of the President and Six Vice Presidents, is a direct responsible body to oversee the overall operations of the Bank. The President chairs the EMC and acts as an official representative of the Bank. A Management comprised of fifty two management members is, on the other hand, responsible for the day-to-day management of the Bank’s operational activities. Pertaining to good governance, the Bank’s management is structured in transparent way and those decisions taken and their enforcement are done in a manner that follows rules and regulations with developed policies and procedures. The Bank’s BOM has established separate Compliance and Risk Management and Internal Audit Directorates for the effective implementation of policies and procedures. Ethical Conduct and Complaint Management is also part of DBE’s culture. The Bank has Ethics and Compliant Management Office under the direct supervision of the President. (DBE, 2016 annual report).

Development Bank of Ethiopia (DBE) is one of the state-owned financial institutions engaged in providing short, medium and long term credits over the last 111 years. The Bank has been playing central role in promoting the over-all economic development of the Country since its establishment.

In its over a century old service, DBE has established recognition at the national and international levels. Nationally, it is the sole Bank with reputable experience in long-term investment financing. Internationally, it is recognized as an important on-lending channel for development programs financed by bilateral and /or multilateral sources.

The recent focus of the government in relation to the revised credit policy of DBE is to provide medium and long term loans for investment projects in the Government priority areas such as Commercial Agriculture, Agro-processing, Manufacturing Industries, Mining and Extractive Industries preferably, export focused as well as lease financing for Small and Medium Enterprises. (DBE)2016annual report.

In the last few years DBE has been on top of the agenda. DBE was the center due to the problem and damage caused by the continuous failed projects.

The development bank of Ethiopia has stopped providing loans to finance projects for undetermined period. (AddisBiz, 2016)

The “continuous failed projects” directs to the question of how are the mechanisms of project financing are conducted particularly in DBE.

This research proposal is to find out the causes of for project failure by studying the whole process of credit appraisals and the mechanisms of financing projects.

1.2 Statement of the Problem

According to the Development Bank of Ethiopia (DBE), promoting the national development agenda through project finance is the mission of DBE. Hence, in order to achieve this mission, projects financed by the Bank should have been operated successfully.

However, failure of projects financed by the Bank becomes a big challenge to achieve the stated mission. According to the annual performance report of the Bank (2017), DBE has reported a 21.6pc decline in net profit. For the second year in a row as the Non-Performing Loans (NPLs) ratio of the bank increased from 16pc to 25pc as of June 2016/17. The state policy financier registered a profit that is three times lower than the target set to be achieved in current fiscal

year. DBE has come up with a significant drop in profit performance in a year when other commercial banks are showered with a massive increase in profit. The underperformance has been mainly due to a surge in the NPLs ratio.(Samson Berhane, Fortune Staff Writer, August 14, 2017/Vol. 18, no 903).

Hence, putting differently, 25% of the projects that are financed by the Bank as a whole are categorized under failure category. From this figure we can easily understand that failure of projects in the Bank is becoming a very serious issue that should be given due attention. Therefore, this research project is aiming at identifying the major causes of failure of projects that are financed by DBE, and forward appropriate recommendation to the concerned management of the Bank.

1.3. Research Question

What are the major causes of project failure financed by DBE?

How efficient the current credit appraisal mechanism in credit risk grading system of the bank and level of awareness, attitude ,and experience of credit officers towards relative importance risk variables under each credit risk grading factor?

What should be done to minimize challenges?

1.4. Objectives of the Study

1.4.1. General Objective

The general objective of the study is to identify, analyze and describe main problems that have direct or indirect relation to those failed projects financed by DBE.

1.4.2. Specific Objectives

To review the share of the various economic sector in DBE credit portfolio.

To assessthe credit appraisal mechanism that DBE for measurement of project financing.

To assess the awareness, attitudes, and experience of credit officers on appraising.

Based on the findings the study proposes possible suggestions and recommendation.

1.5. Significance of the Study

The main significance of the study is to protect DBE from continuous damage of failed projects by identifying the problems, so that Board of Directors, Top Management, and particularly the Government the owner of DBE to take care of and control the situation. In other words, the study will show the major problems in detail and make it brief to all concerned parties so that the bank will use it to improve its future credit appraisal process. It will also create awareness to implement new and better methodology that will help and reduce risks and improve DBE's earning, it will help as spring board for further research hand finally this study will be an input for policy makers on development Bank of Ethiopia.

1.6. Scope of the Study

The focus of this study is to identify and analyze major cause of failure of projects financed by DBE. Target population is employees at Head Quarter level. Other regional branches are not included due to geographical and resource constraints. The study will cover only those projects financed in the five years period from June, 2012/13to June, 2016/17. This period is important because in this period the NPL mounted continuously and caused damage to the financial position of DBE. This is the right time to look into the main causes of project failure to protect the bank from failed projects and save public money.

1.7. Limitation of the Study

The focus of this research is to identify and analyze major causes of failure of projects financed by DBE. But, the study has its own limitation. Among the limitation, regional employees are not included in the population target due to geographical problems and resource constraints; unable to collect the filled questionnaire and conduct interview on time. Another limitation was that few respondents might not give the right response but respondent's confidentiality was guaranteed and all document data and response on questionnaire obtained at free will. Thus, it is believed that data collected from members of respondents is sufficed to safely conclude based on the results.

1.8. Organization of the Paper

The study paper is organized in five chapters. The first chapter is the background of the study, statement of the problem, research question, objectives of the study (general and specific objectives), significance of the study, scope of the study. Chapter two is literature review of the related literatures and empirical literature collected from various sources. The third chapter deals with describing the research design and methodology. It includes the source of data, the type of data, (primary and secondary data), the population and sample size determination, The method of data collection, reliability validity, and last, method of data analysis and ethical consideration are included. Chapter four includes data presentation, interpretation of secondary data, and statistical analysis of data are presented in the form of tables and charts.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Theoretical Literature

The history of a project is as old as the history of mankind because it has been there since people began undertaking pieces of work in one form or another to satisfy their wants. Historical documents provide us with various ancient projects including: the time of the construction of the great pyramids of Egypt, the great wall of China, the TajMahal of India, Obelisk of Axum, the Rock Hewn of Lalibela....(YosephKidane, 2017)

Though, this period is marked as the Traditional Era, it has witnessed the remarkable and appealing achievements of the time. This implies that project management has been practiced thousands years ago and has contributed its share to the development of the ancient civilization. It also implies that “project management stems from the need to plan and coordinate large,

2.1.1. Concept and Definition of a Project

According to Project Management Body of Knowledge (2013) (PMBOK) definition, a project is a temporary endeavor undertaken to create a unique product, service, or result. The temporary nature of projects indicates that a project has a definite beginning and end. The end is reached when the project’s objectives have been achieved or when the project is terminated because its objectives will not or cannot be met, or when the need for the project no longer exists. A project may also be terminated if the client (customer, sponsor, or champion) wishes to terminate the project. Temporary does not necessarily mean the duration of the project is short. It refers to the project’s engagement and its longevity. Temporary does not typically apply to the product, service, or result created by the project; most projects are undertaken to create a lasting outcome. For example, a project to build a national monument will create a result expected to last for centuries. Projects can also have social, economic, and environmental impacts that far outlive the projects themselves.

A project is a complex, non-routine, one-time effort limited by time, budget, resources, and performance specifications designed to meet customer needs. The major characteristics of projects are: an established objective, A defined life span with a beginning and an end, usually, the involvement of several departments and professionals, typically, doing something that has never been done before, and Specific time, cost, and performance requirements (Gray and Larson, 2005:3).

PMI defines a project as “a temporary endeavor undertaken to produce a unique product, services, or result.” Temporary means that every project has a definite beginning and an end.

Unique means that this project, service, or result is different from others that may have preceded it (Lewis, 2011, pp5)

2.1.2. Project Financing

There are various sources to finance project costs. These are share capital, term loan, purchase of goods and services on credit, unsecured loan or leasing. The most important and known financiers are local and external banks. Particularly, development banks usually provide long term loans that are required to support private and public project implementation.

Banks and financial institutions are the two institutions that play a major role in project financing. A project requires sources. In other words funds are required to set aside to create resources meant for the execution of projects. A project may be a new project being set up from a scratch, in which case, major part of the financial requirements goes towards the creation of fixed assets that are required for the project. The financial requirement for the creation of fixed assets are made available by financial institutions and banks in the form of term loan, term-loan refers to long term loans (a long term repayment period). The term loan amount availed is invested in capital goods. Apart from long term loan, a project may also require working capital finance to keep the project in operation, after its completion (KNagarajan, 2015, pp55,)

Projects are financed with initial small amount of investment or private equity contribution and much larger amount of bank loan. Esty and Megginson (2003) find that debt ownership is highly and significantly more concentrated than equity ownership and debt ownership concentration is positively related to the strength of creditor rights and the reliability of legal

enforcement. Thus, equity and bank debt are the principal financing instruments in a project finance transaction.

2.1.3. Characteristic of Project Finance

The core of project finance is the analysis of project risks, namely construction risk; operating risk, market risk et cetera.

Gatti (2008) identifies risks related to pre-completion phase-actively planning risk, technological risk, and construction risk or completion risk; risks related to post-completion phase –supply risk, operating risk, and demand risk; and risks related to both phases –interest rate risk, exchangerisk, inflation risk, environmental risk, regulatory risk, political risk, country risk, legal risk, and credit risk or counter party risk. These risks are allocated contractually to the parties best able to manage them.

Recent trends in project financing, Kleimeier and Megginson (2000) point out that the use of project finance to fund natural resources, electric power, transportationof, and other ventures around the world has risen steadily for the past four decades, form its modern beginnings financing development of the North Sea oil fields during the 1970s’.

According to Gatti (2005), The growth trend of project finance transactions in the eighties and nineties moved along two lines: (i) expansion of project finance in developed countries – promoters began to promote project finance technique to developing country governments as away to rapidly create basic infrastructure and ensure greater involvement of private capital, guaranteed by Export Credit Agencies in their own countries; and (ii) development of project finance in developed countries as a way to realize projects in which the government intervened to promote the development of public works.

2.2. Project Success

According to PM4DEV (2018) project success has been historically defined as a project that meets its obligation under budget and under schedule. This evaluation criterion has remained as the most common measure in many industries. But for a development project, success goes beyond meeting schedule and budget goals, it includes delivering the benefits and meeting expectations of beneficiaries, stakeholders, donors of funding agencies. But defining this

dimension of success is more difficult and some can only be evaluated years after the project has been completed, and for many organizations these types of evaluations are difficult to do due to lack of funding. Project success can be measured in terms of benefits and stakeholders satisfaction and the extent to which the project ultimate objectives are attained.

Lewis (2011), define project success as the only truly successful project is the one that delivers what it is supposed to ,gets results, and meets stakeholders expectations.

2.3. Project Failure

The International Journal of Computer Applications (0975-8887) Volume 86-No 6, January 2014 states key reasons for project failure as:

- Lack of senior management: Senior management must prioritize requirements and make decisions. If any person is not actively involved in a project, that project is doomed for failure.
- Unclear project objectives: Many companies embark upon more initiatives than they probably should, causing overworked and often unhappy team members.
- Scope creep is a serious issue in many projects. Scope creep means an increase in what you have to deliver, without a corresponding increase in resource or an extension to the project timeline.
- Gaps in communication: Once a project is in full swing, a common issue is communication. The biggest complaint here is that project communication resides in each individual's email box. So, if a new resource joins the project, there is no centralized view of the project history.
- Lack of visibility of all projects: A common reason why projects fail is related to visibility. All three tiers of the project team, executive management, project managers, and team members, need access to the right level of information at the right time.

Failure of a project is a costly affair and will destabilize the organization as a whole. Some of the reasons for failure of projects and the precautions to be taken to avoid failures are as under:

- The stage at which the need for the project is visualized, discussed and the project idea gets crystallized. A wrong conceived project is bound to run into rough weather.

- Planning should be done after gathering the required data. Planning based on insufficient and inaccurate data will lead to project failure. Those top managers who are going to be in charge of a project execution should be included in the project planning group.
- One of the main reasons for project failures has been inadequate resource planning. The financial resources required for implementing the project should be tied up properly. If the project runs short of funds midway during its implementation, it will cause heavy damage and a project may come to grinding halt. Apart from financial resources, availability of personnel with special skills required for implementing the project is to be ensured. If men and material resources are not adequately tied up the implementation will suffer leading to failure.
- Periodical evaluation of the project should be carried out. Deviation from the plan and deficiencies found in any are to be corrected by exercising proper control. Projects take shape only by the teamwork of personnel assigned with the task of project execution. If they fail to act as a team and if the project leader lacks the managerial ability to lead his team towards its goal, the project implementation will fail despite having adequate resource and despite having a well thought out plan(K.Nagarajan, 2015)

2.3.1. Project Analysis

Project analysis involves evaluating the viability of the project; In other words, analyzing if the project is capable of attracting the required fund from project financiers. Analysis includes project cost, the initial investment, the project promoters committed to invest and its source. In other words, to review the projected financial statements such as sales revenue, cash inflow and cash outflow. What are the projected internal rates of returns (IRR), net present value of cash (NPV), break-even point, payback period and the likes are thoroughly investigated.

Project analysis also includes technical analysis such as availability of affordability of the technology, material availability, plant capacity, required skill, and others are properly assessed.

In project appraisal, risk analysis plays an important part. All projects are prone to some kind of risk or other. All projects are appraised making certain assumptions. Assumptions in project appraisal are unavoidable since no two projects are unique in all respects and hence a new project that was executed in the past. The following list of elements will give an idea of the

assumptions on which any appraisal is based on: Periodic cash inflow, Periodic cash outflows and Life of machinery etc. Since a project is appraised making use of such assumptions, the appraisal is very much prone to the risk of yielding results that may deviate from reality. (N.Nagarajan, 2015)

2.3.2. Project Risk Management

Lewis (2015, pp 314) explains that there are three steps in risk management process. First, identify risks and threats by asking, “What could go wrong?” or, “What kinds of threat exist?” Second quantify threats and risks by assigning them a risk priority number (RPN). Third, develop contingency plans to deal with risks that cannot be ignored.

According to Stephanie Ray in Risk Management (2017) project risk management is the process of identifying, analyzing and then responding to any risk that arises over the life cycle of a project to help the project remain on track and meet its goal.

A risk is anything that could potentially impact your project’s timeline, performance or budget. Risks are potentialities, and in a project management context, if they become realities, they then become classified as “issues” that must be addressed. So risk management, then, is the process of identifying, categorizing, prioritizing, and planning for risks before they become issue.

2.3.3. Six Steps in Risk Management Process

Process can make the unmanageable manageable. You can take what looks like a disadvantage and turn it into an advantage if you follow the following six steps (ibid).

a) Identify the Risk

As you are identifying risk, you will want to make sure you that your risk register isn’t filling up with risks that are really outliers and not risks at all. Make sure the risks are rooted in the case of problem. Basically drilldown to the root cause to see the risk is one that will have the kind of impact on your project that needs identifying.

b) Analyze the Risk

You have got a lot of potential risks listed in your risk register. The next step is to determine how likely each of these risk are to happen. This information should also go into your risk register.

When you asses project risk you can ultimately and proactively address many impacts, such as avoiding potential litigation, addressing regulatory issues, complying with new legislation, reducing your exposure and minimizing impact.

How do you analyze risk in your project? Through qualitative and quantitative risk analysis, of course. What that does that mean? It means you determine the risk factor by how it impacts your project across a variety of metrics.

c) Prioritize the Risk

Not all risks are created equally. You need to evaluate the risk to know what resources you're going to assemble towards resolving it when and if it occurs.

Having a large list of risks can be daunting. But you can manage this by simply categorizing risks as high, medium, or low. With this perspective, you can begin to plan for how and when you'll address these risks.

Some risks are going to require immediate attention. These are the risks that can derail your project. Failure isn't an option. Other risks are important, but perhaps not threatening the success of your project. You can act accordingly.

d) Assign an Owner to the Risk

All the hard work identifying and evaluating risk is for naught if someone is not assigned to oversee the risk in fact this should be done when listing the risks. Who is the person who is responsible for that risk, identifying it when and if it should occur and then leading the work towards resolvingit? There might be a team member who is more skilled or experienced in the risk. Then that person should lead the charge to resolve it. It is better to assign the task to the right person, but equally important in making sure that every risk has a person responsible for it.

If you don't give each risk a person tasked with watching out for it, and then dealing with resolving it when and if it should arise, you are opening yourself up to more risk. It is one thing to identify risk, but if you don't manage it then you're not protecting the project.

e) Responding to the risk

For each major risk identified, you create a plan to mitigate it. You develop a strategy, some preventive or contingency plan. You act on the risk by how you prioritized it. You have communications with the risk owner and, together, decide on which of the plan you created to implement to resolve the risk.

f) Monitor the Risk

Whoever owns the risk will be responsible for tracking its progress towards resolution. But you will need to stay updated to have an accurate picture of the project's overall progress to identify and monitor new risks.

Risk management is complicated. A risk register or template is a good start, but there should also be robust project management software to facilitate the process of risk management. ProjectManager.com is a cloud-based tool that fosters the collaborative environment need to get risks resolved, as well as provides real-time information, so always act on accurate data.

2.4. Empirical Review

Study in foreign country

Richard Amposah1 (2012) "The real project failure factors and effect of culture on project". The study was to identify the general reasons why projects fail in Ghana and the effect of culture on project management in a multi-cultural society like Ghana.

The study adopted the exploratory survey design. Using the purposive and convenience sampling methods, data was collected from 200 project managers and individuals from various cultural backgrounds and corporate organizations managing various projects.

Findings of the study shed light on several reasons why projects fail. For example 59% of the respondents cited the lack of project pre-finance as a cause of project failure. Only 46% of the

interviewees had some form of knowledge of project management techniques while a whopping 54% had no knowledge in project management. 60% of the respondents did not apply any form of monitoring and evaluation methods on their projects which contribute significantly to project failure. 54% of respondents believe that cumbersome procurement processes is a major cause of project delays and hence project failure. 35% of respondents believe delayed commencement of project implementation also contribute to project failure.

Respondents cited lack of adequate planning, delays in the release of funds and frequent interference by policy makers as a cause of the delay.

Finding with regard to culture in Ghana a project leader would be reluctant to accept his/her faults. He would prefer the project to suffer than to agree that he/she is wrong. It is also from a commonly esteemed high context attitude that the “leader is either an expert or always right”

Officials particularly implementing government projects merit particular consideration in education and training as a means of confronting and correcting the skills and knowledge deficit apparent in project management.

Lastly, owing to the huge disparities in male-female project management practitioners in Ghana, a recommendation to the government of Ghana to encourage female participation in project management professions by increasing the number of scholarships for females.

Yilikal Getachew (2015) “Causes of failure of projects financed by development bank of Ethiopia”. The objective of the research project was to identify the major causes of failure of projects that were financed by development bank of Ethiopia.

Only document analysis was employed to identify the major causes. 80 projects, of which 40 were failed projects while the rest were successful projects, were selected for the study. The sample projects were from the three sectors, agriculture, industry, and service.

The study adopted a regression analysis using the logistic regression model and within these economic sectors using ANOVA method. The study covers the operational period from July 01, 2006 to June 30, 2013.

First, the research observed that implementation delay is among the three independent variables that is found to be significant for project failure/success. Based on the observation of the researcher, projects have faced with many problems at the implementation stage.

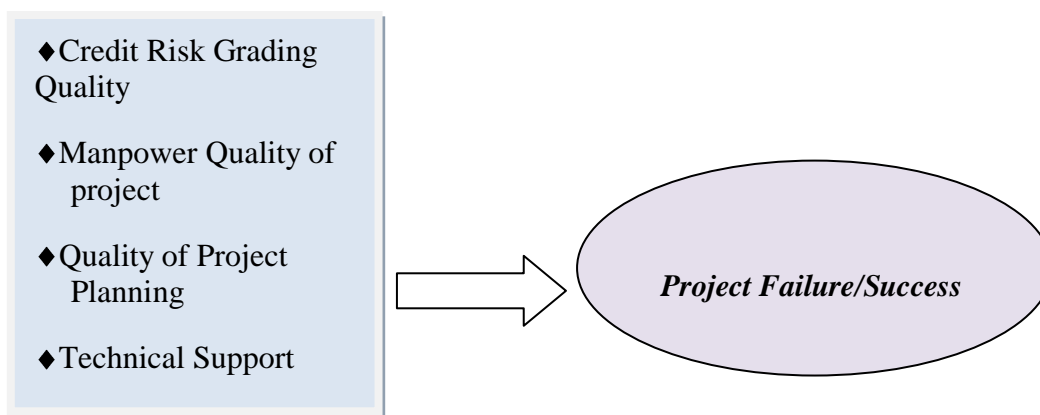
Second, the researcher observed that human recourse is one of the key elements for any business organization to be successful. But, many project owners have poor understanding with respect to human resource aspect of their projects.

Third, the researcher observed that overestimation of project return by the banks appraisal unit is one of the statistically significant causes of project failure/success.

Finally, the researcher of this study agrees with the result of statistical estimation that is, the follow-up report seems a visit report in which the visitors reporting what they watched and told from the project contract person.

2.5. Conceptual Framework

The figure hereunder is the concept map that shows the relationship between the independent variables and dependent variable. Here the independent variables are the credit rating mechanism, manpower quality, the quality of project plan, and technical support given by the Bank considered to have effect on project success or failure.



Source: adapted from: Rashid Saeed, (2018).

Figure 1 Variables that are related to project failure/success

With regard to the relationship between these four independent variables and the dependent variable, it is believed to be by the Bank that appropriate credit risk grading and manpower quality of the credit performer have the effect on project success or failure. Also the quality of project plan and the technical support reddered by the bank have similar effects on project success or failure.

CHAPTER THREE

RESEARCH METHODOLOGY

In this chapter the practical method used in order to answer the research questions and fulfill the purpose of the research presented. It also provides an overview of the research study, and a description of the instrument used for data gathering, target population, sampling procedure, and unit of analysis, sources of data, and methods of data analysis, presentation and interpretation.

3.1. Research Design

The primary purpose of this study is to describe factors that are the causes of project failure financed by DBE in light of the theoretical framework and hence it can be said that it has a descriptive nature. The major purpose of descriptive research is to describe characteristics of a certain phenomenon. Descriptive research designs describe the characteristics of objects, people, or organizations (Zikmund, Babin, Carr & Griffin, 2012:15). Descriptive research paints a picture of the specific details of a situation, social setting, or relationship. By giving answers to who, what, when, where, and how questions. For Kohtari (2006), descriptive research aims at describing a situation in terms of its characteristics. The research also try to give details on the factors that are directly or indirectly related to project failure financed by DBE. Descriptive research design is chosen for this research as it is suitable to accurately portray the causes of project failure particularly on DBE financed projects. Punch (2006) argues that descriptive research design basically gives answer to the question of ‘what is the case or situation here?’ So does this research as for DBE failed projects are concerned. Descriptive research is opted for since it helps in drawing a clear picture of a phenomenon and acquisition of a lot of information. Descriptive research’s purpose of describing how reality is perfectly aligning with the general objective of this research which is describing the most influencing causes that have direct or indirect relation to those failed projects financed by DBE.

3.2. Source of Data

Primary data will be collected through questionnaire (both, open-ended and close-ended types of questionnaire) are delivered to credit experts and credit analysis officers. Unstructured interview is also conducted with both Directors (credit appraisals and credit management).

Secondary includes five year annual reports, internal audit reports and other periodic reports of DBE. Written publications books, newspapers, and magazines are referred. Other external sources, website, and other appropriate information sources are also used.

3.3. Population and Sampling Design

The target populations for this survey are employees of the Bank at Head Office in Addis Ababa. Due to the geographical resource constraints regional branches are excluded. Stratified random sampling is used since it deals with more than one directorate. Stratified purposive sampling was implemented to select respondents at Head Office.

The sample sizes consist of a total of 272 out of the total target population of 855. A purposive non-probability sampling technique is employed to select this sample because of the huge level of impact the selected persons play in understanding the questionnaire and provide a knowledgeable response to the expectation of the researcher.

The study applied the method of non-probability purposive sampling design to extract sample member from the target population. The non-probability sampling method is suitable to handle the descriptive research with qualitative data. It also helps to choose the respondents that are suitable for the study plan.

3.4. Sample Size Determination

The sampling technique that used in the study is non-probabilistic purposive sampling in representing sample members from the target population. The non-probabilistic sampling method is suitable for handling descriptive research with qualitative data. Besides, this enables the researcher to choose the respondents that are most relevant and suitable for the purpose of the study. Therefore, credit analysts from the Credit Appraisal team and relationship managers from Credit Management team will be considered. In addition to this, an interview is held with

Director of Credit Appraisal and Management. Accordingly 19 Credit appraisal team (analysts) and 39 from Credit management team (relationship managers) and 2 Directors (appraisal and management) is selected for this study. Totally 60 sample size population is assigned.

The study preferred the formula derived by Yemane (1967) based on the above information from the data for the population 855 at 5% margin error and 95% confidence level.

The formula is $n = N / (1 + N(e)^2)$

Where “n” is the sample size, “N” is the population size, “e” the level of precision.

$$n = 855 / (1 + 855(0.05)^2) = 272$$

The applicable formula to identify the respective sample size is

$$N_s = (D1 / N) * n$$

Where, N_s = Sample size for each stratum

N = Total Number of population

$D1$ = Population size of the strata

n = Sample size

a) Credit Appraisal Team population = 60

b) Credit Relation Management Team population = 123

1) $(60/855)*272=19$ Credit Appraisal sample

2) $(123/855)*272= 39$ Credit Relation Management sample

Table 1: the types of Respondents, Population Size, Sample Size, Sampling Techniques, and Tools of Data Collection

No	Respondents	Population Size	Sample Size	Sampling Technique	Tools of data Collection
1	Credit appraisal team	60	19	Simple Random	Questionnaire
2	Credit Management Team (relationship managers)	123	39	Simple random	Questionnaire
3	Directors (appraisal and management)	2	2	Purposive	Interview
Total		185	60		

3.5. Methods of Data Collection

Primary data will be collected through questionnaire (both, open-ended and close-ended type of questionnaire) that will be delivered to credit experts and credit analysis officers. Unstructured interview will also be conducted with both Directors (credit appraisals and credit management).

Secondary data that already exists mainly with bank documents under bank custody. This are: DBE annual reports covering the period 2013-2017, quarterly reports, written publications, and newspaper, books and journals will be referred. Other sources such as website, magazines and other appropriate information will also be used.

3.6. Reliability and Validity of the Research Instrument

In order to increase the reliability and validity of this research, appropriate techniques had been used when collecting and analyzing data. Representative samples were taken by employing appropriate sample selection techniques.

Reliability and validity test

Cronbach's Alpha	N of Items
.832	31

As proclaimed by Bhattacharjee (2012), reliability is the degree to which the measure of a construct is consistent or dependable. This research has administered the most commonly used internal consistency reliability measure of Cronbach's alpha which was originally designed by Lee Cronbach in 1951. According to Sekaran (2003), reliabilities less than 0.6 are considered to be poor, those in the 0.7 range to be acceptable and those over 0.8 are good. The reliability coefficient closer to 1 is better.

3.7. Methods of Data Analysis

The data analysis will be conducted in descriptive method of analysis. Tabulation, graphs, percentages and ratios will be used. The data will be analyzed in a form that makes it easy to understand and interpret so as to recommend and conclude the findings.

3.8. Ethical Consideration

Interviews, questionnaires and all other data collections are conducted voluntarily. All interpretations are restricted to the actual data collected and sources of the information will be purely for the academic purpose and confidential.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. Introduction

The data after collection has been processed and analyzed in accordance with the outline and down for the purpose at the time of developing research plan. Processing includes editing, coding classification and tabulation of collected data so that they are amenable to analysis.

The analysis is based on the information obtained from 58 employees. Questionnaires were developed and distributed to employees of Development Bank of Ethiopia and all are fully collected. Thus, the analysis is based on the valid questionnaires responded by employees.

4.2. The Trend of Project Financing in DBE

In this section, the secondary data collected from DBE are presented in the form of tables to clearly show the amount of loan approved every year and where this financing is directed to. To show the share of the economic sector in project financing and the comparison between agriculture, industry, and service finance will be shown in the table. The share of the public and private sector project financed by DBE will also be presented. Finally, to assess the share of DBE contribution towards the development of the national economy and the loss of public money in the name of project financing are analyzed to find out where DBE stands in the economic development of the country.

4.3. Project Loan Appr

Table2: Project Loan Approved

Birr '000

Year	Agriculture	Industry	Other business	Total	% Change
2013	1,357,832.00	5,806,501.00	987,598.00	8,151,931.00	
2014	2,046,272.00	3,609,061.00	1,769,072.00	7,424,405.00	(9)
2015	3,270,000.00	5,630,000.00	785,518.00	9,685,518.00	30
2016	1,489,198.00	9,376,751.00	970,547.00	11,836,496.00	22
2017	548,373.00	6,880,763.00	4,649,807.00	12,078,943.00	2

Source: DBE annual report.

The above table 2 shows how project financing is growing at a fast rate particularly in industry and agricultural sector. The table clearly shows the sector where the policy bank is directing the finance for development.

In the agricultural sector, the amount of loan approved for the period 2013 to 2015 has increased from 1.4 billion birr to 3.3 billion birr which is 136% increase during the period.

In industry sector the amount of loan approved increased from 5.8 billion birr in 2013 to 9.4 billion birr in 2016 which is 62% during the period. Thereafter, the loan approval has also increased but at a decreasing rate.

The table also shows the sector that the government gives priority for development and provides credit finance for agriculture and industry sectors

.From the above analysis we can deduce that almost all the loan approved during the period goes to private project sector agriculture and industry. The loan approval in these two sectors are dramatically very high, agriculture increased by 136% and industry 62% during the study period. We come to see later that the major share of bad loans comes from these two sectors only (98% of bad loans).

Table 3: Project Loan Disbursement by Economic Sector.

Birr '000					
year	Agriculture	Industry	Other Business	Total	% Change
2013	1,202,900.00	3,169,604.00	963,091.00	5,335,595.00	17.0
2014	1,110,527.00	3,542,633.00	818,715.00	5,471,875.00	3
2015	1,890,000.00	4,020,000.00	932,852.00	6,842,852.00	25
2016	2,140,128.00	3,416,136.00	776,303.00	6,332,567.00	(7)
2017	731356	3,366,039.00	1,279,632.00	5,377,027.00	(15)

Source: DBE annual report

4.4. Project Loan Disbursement by Economic Sector

As shown on the above table 3 the disbursement of credit finance for the period 2013 to 2017, the trend clearly indicates the rapid growth in industry and agricultural sector financing. Since

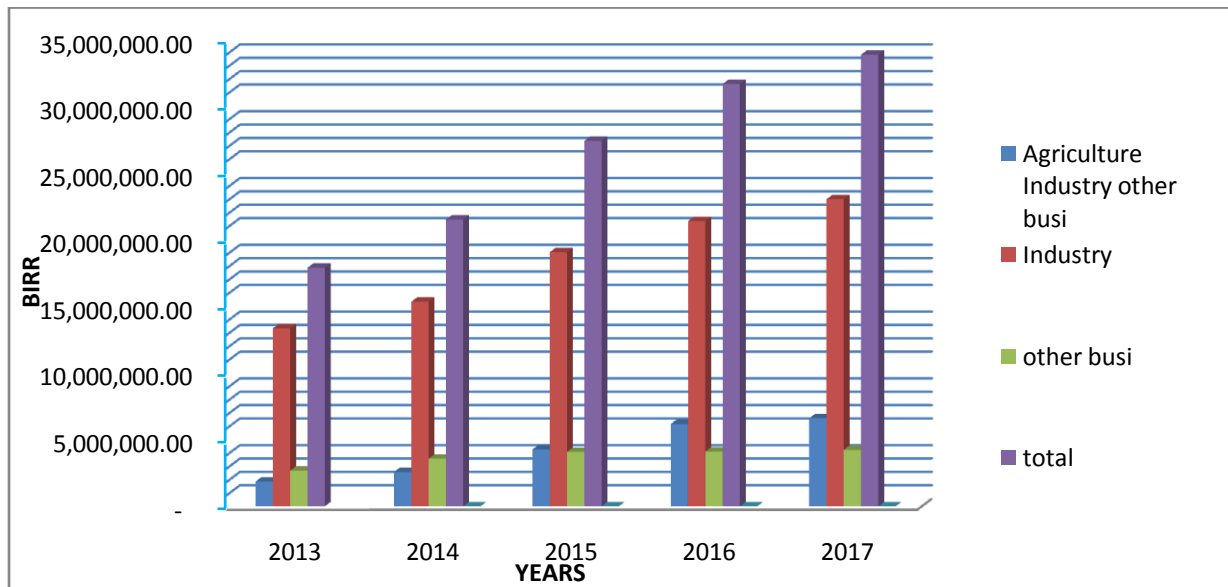
DBE is a policy bank, it follows the government developmental policy and accordingly credit finance moved to government priorities. For example, if we take the year 2015, out of the 6.8 billion birr disbursed, 4 billion birr was allocated to industry and almost 2 billion birr for agriculture sector. This indicates government focus to expand development in industry and agriculture sector which significantly provides an opportunity for employment, technology transfer, and export promotion. On the other hand expand manufacturing sector and produce import substitute products locally to save foreign exchange that goes for import.

Table 4: Summary of Loan Portfolio by Section for Period 2013-2017

Year	Birr '000				% Change
	Agriculture	Industry	Other Business	Total	
2013	1,861,230.00	13,332,206.00	2,674,771.00	17,868,207.00	
2014	2,575,793.00	15,324,708.00	3,571,294.00	21,471,795.00	20.17
2015	4,259,405.00	19,029,385.00	4,073,677.00	27,362,467.00	27.43
2016	6,171,204.00	21,358,057.00	4,101,106.00	31,630,367.00	15.60
2017	6,597,770.00	22,994,828.00	4,229,402.00	33,822,000.00	6.93

Source: DBE annual report.

Graph 1- of Loan Portfolio by Economic Sector



Source: compiled form DBE annual reports

4.5. Summary of Loan Portfolio by Sector for the Period 2013 to 2017

The above table 4 and graph 1 shows the historical data of each sector total yearly outstanding loans and advances for the period 2013 to 2017. During the year 2017, the analysis show that industry project takes the lion share 68% out of the total outstanding balance, agriculture takes 20%, other loans sum up to 12% This indicate the sector where credit financing is concentrating. During the study period, the total outstanding loan balance increased from 17.8 billion birr in 2013 to 33.8 billion birr in 2017 which is 89.3% increase in five years. From the above table we can deduce that the share of industry and agricultural project is 90 % of the total outstanding loan balances 33.8 billion birr. We will see next that 90% of the bad loans come from industry and agriculture sector too. DBE lacks diversification of the project loan to spread the risk over other sectors.

The huge financing in birr in industry and agriculture projects require sufficient foreign currency to import equipments and machineries necessary to carry out the projects in both sectors. But, DBE failed to generate and supply foreign currency to its customers; as a result, many projects failed to generate the required income and turned out to be bad loans. This is a miss match between the huge sum of project finance and the required foreign currency to support the project through import of equipments and machineries.

Due to long term loan, financing is vulnerable to default risk i.e. associated with product obsolescence, with political risk, industry life cycle, technological risk and the like. Timely finance and timely business operation is very crucial for project financing success.

4.6. Loan Disbursement by Social sector

Table 5: Loan Disbursement by Social Sector

2013-2017 Birr '000

Sectors	2013	2014	2015	2016	2017
public enterprise	419,077.0	461,307.0	499,781.0	325,084.0	290,700.0
cooperative	71,697.0	122,985.0	207,782.0	48,087.0	2,774.0
Private	3,948,565.0	4,381,588.0	5,434,478.0	5,595,114.0	4,369,785.0
POFIP/microfinance	896,256.0	566,001.0	710,811.0	364,282.0	713,769.0
	5,335,595.0	5,531,881.0	6,852,852.0	6,332,567.0	5,377,028.0

Source: DBE report

The above table shows the increase in total loan disbursement for the period 2013 to 2017. The share of private sector on average is 80.4%. Public enterprise, cooperatives and others together share the remaining 19%. Private companies and individuals amass to the extent of 4 to 5 billion birr credit finance from DBE every year when at the same time the bad loan balance is also increasing on the other side.

4.7. Non-Performing Loan

Table 6. Non-Performing Loans

In Million Birr

Item	2012	2013	2014	2015	2016	2017
	Actual Total	Actual Total	Actual Total	Actual Total	Actual Total	Actual Total
Non- performing loan						
- Amount	1,122.56	1,627.12	1,853.25	3,431.03	5,601.86	8,449.94
- Ratio	7.54%	8.62%	9.95%	12.54%	17.71%	24.98%

Source: DBE credit operation report

From the above table 6 one can easily observe how the problem of DBE project financing is moving from bad to worse at an alarming speed.

In 2015 NPL was 3.4 billion birr which was 12.54% of the total outstanding loan balance. In 2016 NPL dramatically increased to 5.6 billion (17.71%). A year later the status of NPL further increase to 8.45 billion (24.98%). This is a 7% increase in NPL compared to that of last year 17.71%. Obviously, DBE is moving towards liquidity crises. Is DBE financing projects for development or unwisely dumping of public money into unproductive projects?

Why Projects financed by DBE fail /or become NPL?

Some of the main cause's projects to be non-performing are stated as follows: poor preparation of feasibility study, the diversion of the project finance for unintended purpose, poor credit follow up, poor credit culture, bank related problems, bank policy, and not having the required consultation are some of them.

4.8. Customer Related Challenges

Under these categories, items like customer’s project proposal quality and clarity, poor credit culture of the customer, credit diversion for unintended purpose and lack of deep knowledge of the project at hand are included. Customer proposal includes various documents such as feasibility study which is very important to perform project appraisal, property ownership document, and license to perform the project, and place and area where the project belongs.

Table 7: Customer Proposal

Employees Level of Agreement							
Item	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	NR	Total
The proposals submitted by customers have low quality and are lack of clear project proposal?	1	4	11	33	8	1	58
Percent	1.7	6.9	19.0	56.9	13.8	1.7	100.0
Poor credit culture on customers of the bank, poor understanding of the purpose of credit financing		4	5	33	16		58
Percent		6.9	8.6	56.9	27.6		100.0
Some customers submit credit proposal as a means to obtain credit finance for their undisclosed purpose. Credit diversion.		5	13	32	8		58
Percent		8.6	22.4	55.2	13.8		100.0
Some customer submit project proposal without having deep knowledge of the project because somebody is doing it.		2	7	22	27		58
Percent		3.4	12.1	37.9	46.6		100.0

Source: Filled questionnaire.

As shown on the above table respondents on the “quality of customer’s proposal submitted for credit is as follows:-

56.9% or 33 respondents agree that quality of customer proposal is considered to be low quality and remains to be a challenge for credit performers and analysts. In addition to this 13% or 8 respondents strongly agree and consider it as a challenge.

In total 70.7% agree that most of customer’s proposals quality is low and remains to be a challenge. The remaining 19% remain neutral and 8.6% disagree level of agreement with challenge.

On item 2, respondents on “poor credit culture of the customer “the above table shows that 56.9% or 33 respondents agree on the poor credit culture and 27.6% strongly agree on the statement. In total 84.5% of the respondents agree that poor credit culture of the customer is also remains to be a challenge. Only 6.9% disagree as a challenge.

Item 3, 55.2% or 32 agree and 13.8% or 8 respondents strongly agree that customer obtain credit for undisclosed purpose.

In total 69% of the respondents agree customers divert credit obtained for undisclosed purpose, 22.4% remain neutral and 8.6% disagree. From the above table one can understand diversion of funds for unintended purpose is one of the major challenge or problem area that need to be carefully addressed.

Item 4, 46.6% or 27 and 37.9% or 22 respondents agree customers have no deep knowledge of their projects. In total, 84.5% or 49 employees agree that customers lack deeper knowledge on their projects and consider it as a challenge. 12.1% remain neutral and 3.4% disagree.

4.10. Credit Officer’s Challenge

Under this category items that affect project financing by the DBE is Credit officers’ related challenge. Challenges under this category are related to level of advisory support given by CRM, knowledge and skill which may be attributed to lack of experience, and lack of motivation on credit officers.

Table 8: Credit Officers Challenges

Employees Level of agreement							
Item	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	NR	Total
The quality of the advisory service rendered by CRMs and credit advisors is not to the required level.	5	14	15	19	5		58
Percent	8.6	24.1	25.9	32.8	8.6		100.0
Knowledge and skill of credit performer not to the required level.	5	22	9	18	4		58
Percent	8.6	37.9	15.5	31.0	6.9		100.0
integrity and honesty of the credit officers	6	16	13	12	6	5	58
Percent	10.3	27.6	22.4	20.7	10.3	8.6	100.0
Lack of motivation of the credit performers.	4	17	18	17	2		58
Percent	6.9	29.3	31.0	29.3	3.4		100.0

Source: questionnaire

As stated on table 8 above 32.8% or 19 employees agree and 8.6 % or 5 respondents strongly agree and all in all 41.4% or 24 respondents agree that the advisory level rendered by the Credit Relationship Management (CRM) is not to the satisfaction of the employee. Out of the total respondents 25.9% or 15 employees remain neutral. 24.1% or 14 and 8.6% or 5 respondents which totals to 32.7% or 19 respondents disagree and strongly disagree respectively.

On item 2, 37.9%, 8.6% disagree that no problem of skill on credit performer and, 15.5% remain neutral. These three totals to 62% (including neutral). On the other hand only 37.9% or 22 respondents agree knowledge and skill of credit performer is a challenge. Here, employees are reluctant when it comes to their evaluation. For example on Table—the agreement level on the need for training and up grading skill is 75.8 %. Here, they tell us no problem with knowledge

and skill of the credit performer. The table does not correctly explain the credit performer. I agree with those few 37.9% or 22 individuals who boldly commented on themselves that knowledge and skill are a challenge on the part of the credit officers.

On item 3, “integrity and honesty of the credit officers”. 37.9% or 22 respondents disagree and 22.4% or 13 respondents neutral. These together covers 60.3% or 35 (including neutrals) tell us that integrity and honesty of the credit officers is not a challenge. Only 31% or 18 respondents agree as a challenge.

Item 4, “lack of motivation of the credit performer”. 36.2% or 21 disagree and 31% or 18 respondents remain neutral totals to 67.2% or 39 respondents does not consider lack of motivation of the credit performers as a challenge. Only 32.7% or 19 respondents only consider it as a challenge. The figure indicates that motivation is not that much significant or has less influence on project financing process.

4.11. DBE Related Challenges

The DBE related challenges which are under the control of the bank that affect the smooth running of project financing in DBE. These challenges are related to less consideration of DBE to provide programmed training to upgrade the skill of the credit performer, poor follow up and supervision, and less consideration given to revise unfavorable credit policy.

Table 9: DBE Related Challenges

Employees Level of agreement							
Item	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	NR	Total
Less consideration of the DBE to provide frequent training to upgrade the skill of credit performers.	5	5	9	26	18		58
Percent	8.6	8.6	15.5	44.8	31.0		100.0
Poor follow up and supervision of the assigned credit officers.	1	11	9	24	13		58
Percent	1.7	19.0	15.5	41.4	22.4		100.0
Less consideration given to revise unfavorable credit policy.	1	11	11	25	10		58
Percent	1.7	19.0	19.0	43.1	17.2		100.0

Source: questionnaire

As shown on table 9, 44.8% or 26 and 31% or 18 respondents agree and strongly agree respectively that DBE gives less consideration to provide frequent training to upgrade the skill of credit promoters. Total level of agreement is 75.8% or 44 respondent consider it as a challenge. 8.6% or 5 individuals only disagree. The remaining 15.5% or 9 respondents neither agree nor disagree. To sum up, the figure on the above table shows that providing frequent training to upgrade the skill of credit performers essential to minimize project failure.

On item 2, “poor follow up and supervision of the assigned credit officers”.63.8% (41.4+22.4) or 37 respondents agree and strongly agree respectively that poor follow up and supervision by credit officers are identified as problem challenging DBE.

Out of the 58 respondents, only 12 or 20.7% respondent disagree follow up and supervision as a challenge. 9 respondents or 15.5% neither agree nor disagree. The figure indicates that solving the problem of poor follow up and poor supervision will improve the status of non-performing loans or project failure.

Item 3, “less consideration given to revise unfavorable credit policy”. The above table show that 43.1% or 25 and 17.2% or 10 respondents agree and disagree respectively. 20.7% or 12 respondents disagree and 19% or 11 individuals remain neutral. In total 60.3% or 35 respondents agree that unfavorable credit policy is a challenge in the process of project appraisal. The statistics in the above table shows that the need to change unfavorable policy to minimize project failure.

4.12. Clarity of Credit Risk Grading Form

Under this topic the clarity of the formats is discussed if instructions of the current credit risk grading is easy to use for credit performers/the experts and analysts.

Table 10: Clarity of Credit Risk Grading Form

Employees Level of Agreement							
Item	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	NR	Total
The format & instructions of credit risk grading are easy & clear to use for credit performers/analysts	2	19	15	18	4		58
Percent	3.4	32.8	25.9	31.0	6.9		100.0

Source: questionnaire

As shown on table 10 the level of agreement on “clarity of the format and instructions on credit risk grading” is as follows. 37.9% or 22 individuals agree that the format and instruction of credit risk grading are easy and clear to use for credit performers/analysts. 36.2% or 21 respondents disagree. 25.9% or 15 respondents neither agree nor disagree. From the above table we can understand that respondent split into two. But we recommend revision and make it simple as much as possible.

4.13. Measurement of Parameters

Under parameters we discuss 4 items such as parameters of credit risk grading used by the bank, the weight assigned for each parameter, the explanation given for each parameter and, the subjective credit risk parameters.etc

Table 11: Measurement of Parameters

Employees Level of Agreement							
Item	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	NR	Total
The parameters of credit risk grading used by the bank are sufficient enough to grade customers	3	25	13	15	1	1	58
Percent	5.2	43.1	22.4	25.9	1.7	1.7	100.0
The weights assigned for each parameter are reasonable and fair.	2	23	18	13	1	1	58
Percent	3.4	39.7	31.0	22.4	1.7	1.7	100.0
The explanation given adjacent to each parameters are convincing enough to grade	2	20	19	16		1	58
Percent	3.4	34.5	32.8	27.6		1.7	100.0
Subjective credit risk grading parameters influences the credit risk grading system	1	6	14	24	12	1	58
	1.7	10.3	24.1	41.4	20.7	1.7	100.0

Source: Filled questionnaire

As shown on the above table11 the level of agreement or disagreement on “the parameters of credit risk grading used by the bank are sufficient enough to grade customers” is as follows. 48.3% or 28 respondents disagree that parameters are not sufficient enough to grade customers. 27.6% or 16 respondents agree parameters are sufficient enough to grade customer. 22.4% or 13 individuals neither disagree nor agree on the above statement. To sum up, the majority of

respondents believe that the parameter is a challenge needs to be revised to protect and minimize project failure.

On item 2, on “the weights assigned for each parameter are reasonable and fair” the respondents level of agreement is as follows;- 43.1% or 25 individuals disagree the fairness of the weights assigned for each parameters. 24.1% or 14 individuals the weights assigned for each parameter are fair. 32.7% or 19 individuals neither agree nor disagree. From the above statistics we can deduce that the majority of the respondents are in favor of revising the weights assigned for each parameter.

On item 3, on “the explanation given adjacent to each parameters are convincing enough to grade”. The respondent level of agreement and disagreement is as follows. 37.9% or 22 respondents disagree that the explanation given adjacent to each parameters are not convincing enough. On the other hand 27.6% or 16 individuals agree that “the explanation given adjacent to each parameter is convincing enough to grade. 32.8% or 19 respondents remain neutral. From the above statistics we learn that the majority of respondents believe that “the explanation given adjacent to each parameter needs to be revised.

On item 4 “subjective credit risk grading parameters influence the credit risk grading system” the level of agreement of the respondents stated as follows. 62.1% or 36 individuals agree that subjective credit risk grading is a challenge on the process of credit appraisal. 12% or 7 individuals only disagree. The rest 24.1% or 14 respondents remain neutral. From the above statistical report we can deduce that the majority of the respondents think “subjective credit risk grading should be revised or redefined.

4.14. Importance of Tanning

Under this category that affect project financing by the DBE is employees’ related problems. Problems under this category are related to employee’s capacity which may be attributed to lack of experience, knowledge and skill, level of related education, in general capacity building of the credit performer and analysts.

Table 12: Importance of Training

Employees Level of agreement							
Item	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	None response	Total
Training should be given for credit analysts before he/she carry out the risk grading	3	5	1	18	31		58
Percent	5.2	8.6	1.7	31.0	53.4		100.0
Performers experience related to credit analysis has its own impact to evaluate customers credit risk grading	1	5	3	24	24	1	58
Percent	1.7	8.6	5.2	41.4	41.4	1.7	100.0

Source: Filled questionnaire

As shown on table 12 above, the level of agreement or disagreement on “training or capacity building of the credit performer” is as follows. 84.4% or 49 (53.4% or 31 strongly agree and 31% or 18 normally agree) respondents agree that training is very important for credit performer and analysts to build employee capacity to minimize challenges or problems faced during the process of credit appraisal. 13.8% or 8 individuals disagree and 1.7% or 1 individual only, remains neutral.

The majority of respondents strictly emphasize capacity building through training is very indispensable to solve problem of project failure.

Item 2, on “performers experience related to credit analysts has its own impact to evaluate customers credit risk grading” The level of the respondents are stated as follows;- 82.8% (41.4% strongly agree and 41.4% on agree level) or 48 respondents agree that “ performers experience related to analysts has its own impact on the process of evaluating customers credit risk grading”. 10.3% or 6 respondents disagree and 5.2% or 3 respondents remain neutral. Here, the majority of the respondents clearly stipulated that performers experience is a decisive factor at the time

credit appraisal process and customers credit risk grading. Thus, credit performers experience gap is a great challenge that must be given due attention as expressed by respondents on the above table

4.15. Market Related Challenges

Under this topic the availability of market for company product and the percentage of company share in the market is discussed. Having a clear idea of the marketability of the product is solving part of a problem that may become a challenge if not properly addressed.

Table 13: Market Availability

Employees Level of Agreement							
Item	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	None response	Total
It is easy to rate & evaluate market availability of the project product of a company	4	22	12	17	3		58
Percent	6.9	37.9	20.7	29.3	5.2		100.0
It is easy to rate a company according to its market share or market competition, it can be easily evaluate its future share in the market	4	23	9	19	2	1	58
Percent	6.9	39.7	15.5	32.8	3.4	1.7	100.0

Source: Filled questionnaire.

On the above table 13 the level of agreement/disagreement on the statement “ it is easy to rate and evaluate market availability of the project product of the company”. 44.8% or 26 respondents disagree and 34.5% or 20 respondents are in favor of the above statement. 20.7% or 12 respondents remain indifferent. The majority of the respondents including the neutrals indicate that it is not easy to rate and evaluate market availability of new project product of a company. This might be due to unorganized market structure of the country.

On item 2, 46.6% or 27 respondents disagree the statement “it is easy to rate a company according to its market share and can be easily evaluate its future share in the market”. 36.2% or 21 respondent agree with the statement. 15.5% or 9 respondents neither agree nor disagree. The majority of the respondents believe that it is not easy to find information of such kind.

4.16. Variables that Affect Project Financing

Here, some variable that are directly or indirectly affect the process of project appraisal and financing.

This are: - poor project planning and over/under estimation which leads to unrealistic repayment schedule.

- Lack of professional support or advice
- On time correction or rectification whenever a problem is detected.
- Poor follow up
- Company succession plan etc.

Table 14: Variables of Credit

Employees Level of Agreement							
Item	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	NR	Total
poor project planning is the cause of the over/under estimation of credit finance which results for unrealistic, repayment amount & repayment periods	1	7	7	18	25		58
Percent	1.7	12.1	12.1	31.0	43.1		100.0
Lack of professionals who are capable of providing technical advice to tackle the problem on time.	2	6	13	30	6	1	58
Percent	3.4	10.3	22.4	51.7	10.3	1.7	100.0
unable to identify & rectify on time under/overestimated cash flow statement		8	18	27	5		58
Percent		13.8	31.0	46.6	8.6		100.0
poor follow up (inadequate) management of the project		10	6	27	14	1	58
Percent		17.2	10.3	46.6	24.1	1.7	100.0
poor assessment of the initial investment of the project which leads to the wrong estimation of the credit requirement for the project		5	10	28	14	1	58
Percent		8.6	17.2	48.3	24.1	1.7	100.0
It is easy to know whether the company has succession plan or not	2	11	13	25	4	3	58
Percent	3.4	19.0	22.4	43.1	6.9	5.2	100.0

Source: Filled questionnaires

On table 14 shown above 74.1% (43.1% strongly agree plus 31% agree) or 43 which is the majority of respondents agree on “poor project planning is the cause of the over/ under estimation of the credit finance which results to unrealistic repayment amount and repayment period. 13.8% or 8 individuals disagree on the above stated statement. Only 7 or 12.1% respondents remain indifferent.

Item 2, as shown on the above table 62% or 36 respondents believe that lack of professional advice and technical support is not to the required level. 13.7% or 8 individuals disagree. And, 22.4% or 13 individuals remain neutral.

The majority of the respondents believe that professionals who are capable of providing advice and technical support are important to solve problem.

Item 3, the level of agreement or disagreement of respondents on the inability of DBE to identify and rectify mistakes on time such as wrongly over stated or understated cash flow statements which leads to wrong credit decision is as follows; 55.2% or 32 respondents agree on the above statements and 13.8% or 8 respondents disagree. 31% or 18 respondents remain neutral. The majority of respondents agree that early identification of problems and on time rectification is also a problem that should be addressed.

Item 4, 70.7% or 41 respondents believe that poor follow up or lose management of a project is the main problem that affect project failure as it is indicated on the above statistical report. 17.2% or only 10 respondents disagree. 10.3% or 6 individuals remain indifferent.

Item 5, 72.4% or 41 respondents agree that poor assessment of the initial investment which is a base to estimate the credit requirement for the project, leads to wrong credit financing. 5 respondents or 8.6% disagree and 17.2% or 10 individuals remain neutral.

Item 6, here 29 out of 58 respondents which is 50% agree and the rest disagree on the statement “it is easy to know whether the company has succession plan or not. In general, it would be better if the company has good employment practice with its succession plan that gives good image for the out siders.

4.17. Integrity and Honesty

It is very difficult to obtain information on customer with regard to business, loan repayment habit etc.

Table 15: Integrity and Honesty

Employees Level of Agreement							
Item	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	None response	Total
It is very difficult to obtain sufficient information on the customer.	4	8	10	31	5		58
Percent	6.9	13.8	17.2	53.4	8.6		100.0

Source: Filled questionnaire

On table 15 above, 62% or 36 respondents agree that “It is very difficult to obtain sufficient information on customer” 20.7% or 12 respondents disagree. 17.25 Or 10 respondents remain neutral. To obtain key information on customer behavior and credit practice remains to be a challenge since there is no institution that provides such a kind of service.

4.18. The generous Lending policy of the Bank

Table 16: Bank Policy

Employees Level of Agreement							
Item	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	NR	Total
The generous lending policy of the bank e.g. 25% initial investment and 75% bank credit finance made recovery difficult in case of default.	4	13	13	18	9	1	58
Percent	6.9	22.4	22.4	31.0	15.5	1.7	100.0
The generous lending policy gives way to temptation.	2	11	19	18	6	2	58
Percent	3.4	19.0	32.8	31.0	10.3	3.4	100.0

Source: Filled questionnaire.

On the above table 16 the level of agreement/ disagreement is as follows. 46.5% or 27 respondents agree that “the generous lending policy of the bank put recovery of credit finance difficult in case of default. Since the borrower twice of his initial investment why should he bother to repay what he is indebted to the bank? 29.3% or 17 respondents disagree and 22.4% or 13 individuals remain neutral.

Item 2, 41.3% or 24 respondents agree that “the generous lending policy gives way to temptation”. On the other hand 22.4% or 13 respondents disagree. 32.8% or 19 respondents neither agree nor disagree. The generous lending policy such as for example investing or with initial contribution of 25million Birr the promoter obtains 75 million birr. A number of borrowers have been found that they have built buildings in Addis Ababa and Mekele with cash money they obtained from DBE credit finance. Some imported machineries duty free and sold it and or rented for others. Some took the money and disappeared. All these confirmed by the investigation committee formed by the government itself.

4.19. Discussion of the Results

On importance of training, 48 out of 58 respondents agree that “performers skill related to analysts has its own impact on the process of evaluating customer’s credit risk grading”. Thus , the result that “credit performers experience gap is a great challenge that must be given due attention as expressed by respondents to the questionnaire. This is consistent with (Stephanie Ray in Risk Management, 2017) project risk management is the process of identifying, analyzing and then responding to any risk that arises over the life cycle of a project to help the project remain on track and meet its goal. Thus a team member who is more skilled or experienced is a must to resolve risk.

On poor project planning. Poor project planning is the cause of the over/under estimation of credit finance which results for unrealistic, repayment amount & repayment periods. This is supported by (K. Nagarejan, 2015) One of the main reasons for project failures has been inadequate resource planning. The financial resources required for implementing the project should be tied up properly. If the project runs short of funds midway during its implementation, it will cause heavy damage and a project may come to grinding halt.

The major problem faced with DBE project financing is related to the quality of the customer project proposal, lack of clarity or, incompleteness of the project proposal, and poor credit culture of the customer. This is consistent with the study of (Stare, 2011) different reasons may lead to a project's failure, such as an unclear characterization of the objectives, an insufficient project schedule, many changes, inadequate control, ineffective communication are some of them.

On customers' honesty and integrity. It is very difficult to obtain sufficient information on the customer. Result shows that 62% or 36 respondents agree that "It is very difficult to obtain sufficient information on customer". To obtain key information on customer behavior and credit practice remains to be a challenge since there is no institution that provides such kind of service. This is consistent with (Journal of Computer Application vol.86-No. 6, January, 2014). Which stated that all three tiers of the project team, executive management, project managers, and team members, need access to the right level of information at the right time?

4.20. Comments or Suggestion Collected From Respondents In Writing

1. "Realistic causes are, unable to aware or technology update, lack of project awareness, external and internal problems"
2. "Infrastructure, political and social problem is the main problem"
3. "Poor credit management, credit size and lack of commitment of borrowers for proposed business may cause for failure of projects".
4. "There are different factors which leads projects to failure. Among which lack of cooperation from d/f stockholders, existence of unforeseen situation such as shortage of foreign currency, instability etc".
5. Some borrowers have no concept about the project they are doing, unwillingness of the borrower to pay the debt, lack of skill who are managing the project".
6. "Unwillingness to pay the loan by the customer side, lack of commitment of the promoters, bank credit policy and procedures".
7. The finding of the research should be communicated to the bank so to save the costing policy".

8. “The main causes of project failure as depicted, frequent idea change of the promoter which differ from the initially planned by the bank, to get profit no from the proceed of their project, or from the intended rather from the cash they get directly, recruitment of unskilled project manager, conflict of interest among the project owners/promoters, seeing short term income or profit instead of work as planned”.
9. “The intervention of management of the bank, the Board of Directors, government officials is very critical. Policy and procedure violation by credit performers and the stakeholders deliberately or unknowingly is also significant”.
10. “The bank should address the loan processing time. Should strictly examine the borrower. Should make strong relation with stakeholders. Should address the follow-up and monitoring system”.
11. “Some failures existed in the bank is due to the government intervention because there was high government intervention on the bank. Performers mistake does not have that much influence on the project”.
12. “The borrower’s business motive is too much poor and approaching financial institution out for the purpose of making profit from diversion of project fund acquired from financing. The poor business low practice in the country, other stakeholders & the bank provide unreliable data & information w/l makes wrong decision on project financing. The external environment /which is outside of the bank and borrowers/ is making high contribution for projects failure. Eg. Gambella regional government contribution on advising the bank for financing agricultural projects. The government influence on the bank to engage on in financing highly risky areas. The environment influence itself.”
13. ‘Intervention from higher officials (including government officials) in provision of loan. Poor or lack of transparency and accountability at the bank which resulted in unethical practices and negligence at performer and management level’

The above comments and suggestion collected from respondents indicate that frequent change of project idea, management interference, government intervention to finance risky business areas, and policy procedure violation by credit performers and stakeholders are some of the causes of project failures.

4.21. Magazines, Newspapers & Electronic Media Report on DBE project financing

Reporter Amharic newspaper volume 22 number 1737 dated Tahsas 12, 2009 EC (December 21, 2017) printed the report of the study group established by the decision of the then Prime Minister. The report is summarized as follows. Out of 630 thousand hectares of land, only 76 thousand hectares of land is on the right track for development. Those investors who took the farm land were allotted 4.9 billion Birr loan for agricultural investment. The credit facility and the duty free import right attracted those investors who are very much eager to prosper at short cut by grabbing the opportunity of duty free import permission allowed for investors gave way to a new unlawful import business. On the other hand, the credit finance obtained from loan proceeds diverted from its original purpose to unintended business giving a chance for rent-seeking groups to prosper illegally as reported by the study group. The duty free right allowed for investors were abused not only in agriculture but also in hotel and industry sectors too at time of importing construction materials and other necessary equipments.

A recent report conducted by the federal Ethics & Anticorruption Commission revealed that the country's duty-free incentives and tax exemptions had given way to corruption and maladministration. More duty-free goods are imported than allowed by the regulation; privileges were abused while importing non-duty items; products imported with these privileges are sold to third parties; and the transfer of privileges takes place between businesses without using the proper channels. Source: Fortune Vol.19 No 964 Oct. 21, 2018.

Fortune a weekly business newspaper volume 19, number 961, September 30, 2018 reported on DBE bad loans as follows. Bad loans at the state policy bank, Development Bank of Ethiopia (DBE), ballooned to an alarming rate of 39.4 pc in the last fiscal year. Recorded previously at 25pc, the bank's non-performing loan (NPL) portfolio during the past fiscal year stood far higher than the standard set by the National Bank of Ethiopia (NBE), at 15pc maximum. Just half a decade ago, it stood at under 10pc.

Low productivity of commercial farmland that the bank extended loans to, intermittent rainfall, the fore crunch, management problems and political unrest in the country are reported to be the primary causes of the accelerating NPL ratio, according to the performance report by the bank. "The soaring NPL rate is only a temporary problem." Haileyesus Bekele, the recently appointed

president of the bank said. “We are ready to disburse 20 billion Birr more in this fiscal year as soon as foreign currency is available.” Although the bank planned to disburse 59 billion Birr, it only disbursed 39 billion Birr in loans and advances as a result of fore crunch. Investment projects need financing within the margin of 65pc to 70pc in foreign currency.

If the foreign currency problem stabilizes, we are hoping that the NPL will be offset by our revised lending interest of 12pc [9.5pc for exporters that manage to accomplish 80pc and above of their targets], according to the bank.

The loan policy introduced to deal with this problem increases the lending equity contribution from foreign investors to 50pc from the previous 30pc two years ago. By contrast, equity that domestic investors are required to rise has been reduced by five percent to 25pc. for investors that invest in industrial parks; the rate has been further reduced to 15pc, to encourage them to participate in the industrial development zones.

Despite loans that are given at generous terms, they are costing DBE so much due to high non-repayments, which hasn’t been observed in the banking industry.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Findings

Based on the research findings the main causes of project failure are diversion of the credit finance of the project for other unintended purpose, absence of quality and competence of projects proposal submitted by customers, poor credit culture of customers of the bank, poor follow up system of the projects on the ground, poor project planning that leads to wrong credit decision and unrealistic repayment period, lack of information on customer's integrity ,honesty, and past customers loan repayment habits if any are some of the major causes. The detail information follows hereunder.

- Thus DBE prioritize to finance mainly in agriculture, and industry. Of the total loan disbursement approved every year the average share of industry is 60%, agriculture 26%, others 14% disbursed during the study period. This indicates the sector where credit financing is concentrating. During the study period, the total outstanding loan balance increased from 17.8 billion birr in 2013 to 33.8 billion birr in 2017 which is 89.3% increase in five years. We can observe that the share of industry and agricultural project is 90 % of the total outstanding loan balances 33.8 billion birr. As of the 4th Quarter ended June 30, 2017, the NPLs amount Birr 8.45 Billion. The actual NPLs in the sectors of agriculture, manufacturing, mining & energy, services, financial service and consumers; is Birr 3.3 Billion, Birr 4.97 Billion, Birr 31.2 Million, 129.99 Million, Birr 0.86 Million and Birr 2.26 Million, respectively.(Source: Quarterly report of DBE.)
- The major problem faced with DBE project financing is related to the quality of the customer project proposal, knowledge, and customer credit culture. The other major problem is Customer Relation Management risks such as rating customer integrity and honesty. Lack of sufficient information on customers previous credit repayment habit and default history if any becomes an obstacle for credit performer.
- The DBE related challenges such as training to upgrade skill of credit performer, the need for effective credit follow up and eliminating unfavorable credit policy. These factors are

under the control of DBE. DBE is capable of taking measure to solve the problems faced regarding the above stated factors, but it still remains to be a problem as witnessed by the respondents of credit performers.

- Various parameters which are commonly used in banking system particularly used as a means to rate the level of the risk involved in the processes of project financing. Most of the time, the rating system is mainly concerned with financial documents such as the initial investment, composition of working capital and fixed assets, cash flow statement, source of revenue, profit margin etc. All these are rated by credit performer to see if customer's proposal is worthy or not worthy for credit finance. In other words accept or reject the proposal. This is a routine practice in project financing area. As the economy is changing and new policy is introduced, the parameters and the quality and skill of the credit performer should also be developed to respond to changes. Subjective parameters which solely depend on expert's judgment should be eliminated.
- The key risk indicators need to be periodically revised, updated, and available new technology in the market should be employed to minimize the risk of credit financing projects.
- The majority of the credit performs, strongly emphasize the importance of trained and experienced credit performers to reach at the right and correct decision of credit finance.
- 42 out of 58 credit performers have their consensus on the following factors that strongly affect project financing. These are poor project planning, lack of professionals, inadequate management on credit finance of projects, and wrong evaluation of the startup or initial investment, are strong causes for project finance to change into non-performing loans or failed project finance.
- Regarding the credit relationship management, it is very difficult to obtain sufficient information on the customer integrity, honesty, and other related information.
- The generous lending policy of the DBE goes to 75% of the credit need of the project. This means that if the project promoter invest 25million birr, bank provides 75million birr credit finance without any additional request for collateral. Why would it be a surprise if customers who get cash three times of its initial investment tempt to deceive the bank to obtain credit and divert the credit finance for initially unintended purpose or to other most lucrative business? Why not customer disappears after he has obtained credit cash three

times of its initial investment. It has been exhibited that an external investor who come with dismantled old machinery to work in partnership with the government, erected the old machinery somewhere in Ethiopia, managed to obtained lucrative cash credit finance and returned to his homeland surrendering the outdated machine to Ethiopian government. This is financing against unworthy collateral, but not the business. Financing should be for the business not collateral.

- “Despite loans that are given at generous terms, they are costing DBE so much due to high non-repayments, which hasn’t been observed in the banking industry”.(Source: Addis Fortune Aug. 14,2017/ vol. 18, N0903).

5.2. Conclusions

Conclusions are drawn based on the research findings that the main causes of project failure are diversion of the credit finance of the project for other unintended purpose, absence of quality and completeness of projects proposal submitted by customers, poor credit culture of customers of the bank, poor follow up system of the projects on the ground, poor project planning that leads to wrong credit decision and unrealistic repayment period, lack of information on customer’s integrity ,honesty, and past customers loan repayment habits if any are some of the major causes that the research study come to conclusion.

The bank related problems such as reluctance of the credit managers to provide frequent training to upgrade the skill of the credit performer, to improve the poor follow-up and supervision of the credit officer. “The intervention of Management of the bank, the Board of Directors, government officials are very critical. Policy and procedure violation by credit performers and the stakeholders deliberately or unknowingly is also significant. “One of the respondents comment.

The challenge observed in credit risk grading is that some parameters are subjective and the bank depends on professional judgment. In customer relationship risk especially in rating customer integrity and honesty is one important problem.

One important finding which respondents strongly conquer with is that poor project planning leads to unrealistic financial decision and loan scheduling which disrupt the loan repayment period and results to non-performing loan In addition to this lack of professionals and experts

who are capable of providing technical support and consulting advice is very crucial for both parties (customer and bank).

Finally, the generous lending policy of the bank on project financing without considering additional collateral other than customers initial investment. This policy weakness the position of the bank in case of default and trying to recover back the loan. On the other hand no additional commitment on the part of the borrower and become encouraged to default the loan repayment.

5.3. Recommendations

Based on summary of the findings and conclusions the following recommendations are forwarded.

DBE should demand customers to come with project proposal be prepared by professional, full and complete documents with clearly stated objective. In other words, protect credit fund diversion for initially unintended purpose.

Pre-project finance orientation for clients to create awareness on principles and purpose of bank project finance: familiarize customers with bank credit culture.

Identify and discourage client who run just to snatch credit finance for unintended and undisclosed purpose, In other words, protect credit fund diversion for initially unintended purpose.

It is advisable to devise a mechanism which can alleviate the problem finding full information on client's integrity and honesty. At least to do some intelligence work on credit applicants that enable to have sufficient information on customer past history on repayment habit and its financial operation of business account

DBE must find skilled, professional credit performers which can easily be obtained in the market or through intensive training, and arranging experience with similar banks.

Establish strong follow up and credit monitoring system which supports credit follow up officers.

It is advisable for the bank to consider the generous lending policy in practice currently. In this regard the bank moved to introduce new policy two years ago. The new policy required foreign investors to increase the initial investment to 50% from the previous 30%. It would be nice, had the new policy included all other local borrowers too for it strengthens bank's collateral position and lessen the damage in case of default.

.Weadvise management to protect the bank from failed project. Failure of a project is a costly affair and will destabilize the organization as a whole. This is exactly what we are seeing now in case of Development Bank of Ethiopia. Projects financed by DBE turned to NPL and consumed its capital.

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Appendices

Appendices

St. Mary University

School of Graduate Studies

MBA in Management (Main causes of project failure.)

RESEARCH QUESTIONNAIRE

Dear Respondents,

The purpose of this questioner is to collect data to make an assessment on the main causes of project failure financed by the Development Bank of Ethiopia (DBE).

The information collected on the performance of DBE project financing will have great contribution on building up knowledge and skill in the financing sector of the country. Would you please genuinely indicate your agreement or disagreement with each of the statements by putting () mark in the space provided for each item. This is purely for academic purpose and remains confidential.

Demographic profiles of the respondents

1. Age _____
2. Sex _____
3. Marital Status Married____, Single____ Divorced____
4. Education Level Diploma____ Degree____ Masters____ PhD____
5. Work Experience 1-5years _____ 5-10 years ____ above 10 years ____

Key: 5 = strongly agree; 4 = Agree; 3 = Neutral; 2 = Disagree; 1 = Strongly Disagree

Item	Rating				
	5	4	3	2	1
I. Customer proposal					
1. The proposal submitted by customers has low quality and are lack of clear project proposal??					
2. Poor credit culture on customers of the bank, poor understanding of the purpose of credit financing					
3. Some customers submit credit proposal as a means to obtain credit finance for their undisclosed purpose. Credit diversion.					
4. Some customer submit project proposal without having deep knowledge of the project because somebody is doing it.					
II. Credit officers Challenges					
5. The quality of the advisory service rendered by CRMs and credit advisors is not to the required level.					
6. Knowledge and skill of credit performer not to the required level.					
7.integrity and honesty of the credit officers					
8. Lack of motivation of the credit performers.					
III. DBE Related Challenges					
9. Less consideration of the DBE to provide frequent training to upgrade the skill of credit performers.					
10.Poor follow up and supervision of the assigned credit officers.					
11. Less consideration given to revise unfavorable credit policy.					
IV. Clarity of credit risk grading form					
12. The format and instructions of credit risk grading are easy and clear to use for credit performers/analysts					
V. Measurement on parameters (Acceptable parameters)					
13. The parameters of credit risk grading used by the bank are sufficient enough to grade customers					
14. The weights assigned for each parameter are reasonable and fair.					
15. The explanation given adjacent to each parameters are convincing enough to grade					
16.Subjective credit risk grading parameters influences the credit risk grading system					
VI Importance of training and experience					
17.Training should be given for credit analysts before he/she carry out the risk grading					
18. Performers experience related to credit analysis have its own impact to evaluate the customers” credit risk grading					
IX. Market availability of the project product					
19. It is easy to rate and evaluate market availability of the project					

product of a company					
20. It is easy to rate a company according to its market share or market competition, it can be easily evaluate its future share in the market					
X. Variables of credit Management					
21. poor project planning is the cause of the over / under estimation of credit finance which results for unrealistic, repayment amount and repayment periods					
22. Lack of professionals who are capable of providing technical advice totackle theproblem on time.					
23. unable to identify and rectify on time under/ overestimated cash flow statement					
24. poor follow up (inadequate) management of the project					
25.poor assessment of the initial investment of the project which leads to the wrong estimation of the credit requirement for the project					
26.It is easy to know whether the company has succession plan or not					
XI. Integrity/honesty of the customer and its Credit relationship with other Banks.					
27. It is very difficult to obtain sufficient information on the customer.					
XII. Bank Policy					
28. The generous lending policy of the bank e.g. 25% initial investment and 75% bank credit finance made recovery difficult in case of default.					
29.The generous lending policy gives way to temptation.					

XIII. Any comment or suggestion that you think to be addressed.

30. _____

Thank you.