INVESTMENT PROJECTS FAILURE: FACTORS, SYMPTOMS AND SOLUTIONS (CASE STUDY ON DEVELOPMENT BANK OF ETHIOPIA)

BY: DAGLAS TEFERI

A THESIS SUBMITTED TO SAINT MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR MBA IN ACCOUNTING AND FINANCE

ADVISOR:- ASMAMAW GETIE

JUNE, 2020

ADDIS ABABA, ETHIOPIA

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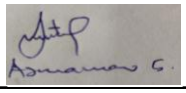
Asmamaw Getie	
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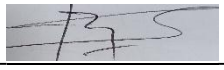
Mekonnen Mengistie	
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DECLARATION

I the undersigned, declare that this thesis is my original work, prepared under the guidance of Asmamaw Getie (Ass Prof). All source of materials used for thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or full to any higher learning institution for the purpose of earning any degree.

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ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate studies for examination with my approval as University Advisor.

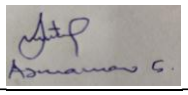
Asmamaw Getie 

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Table of Contents

Content Page

ABSTRACT

Projects play vital role in the implementation of national policies and strategies. That is way World Bank defined project as building block of development. However, projects can fail because of uncertainty to the future. Therefore, studying of project failure gives opportunity for learning from previous mistakes and improve the decision making process. The concept here is to take advantage of the failure and turn the negative feeling around by analyzing what went wrong and correcting it for the future.

This study identifies the major investment projects failure; factors, symptoms and solutions of DBE financed projects. The units of analysis in the study is the projects which is being financed From the period July 01, 2012 to June 30, 2016 and which has been started operation and stayed for a minimum of one year and the target population is 26 project promoters and project manager taken from the financed projects and 24 credit performers are considered, thus the total number of respondents are 50 since these population is very low and manageable, there is no need to take sample.

The finding of this study portrayed that the cause of project failure financed by development bank of Ethiopia are factors in connection with project specific, factors in connection with credit management, factors in connection with macro environment related factors and factors in connection with socio political environments.

ACKNOWLEDGMENT

It gives me a great pleasure to extend my sincere gratitude for the help I received to complete the project.

First and for most I would like to thank God for giving me His divine strength and commitment during difficult time of conducting my research.

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DAGLAS TEFERI

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ETHIOPIA

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the study

Projects are the policy and plan instruments, a particular decision scheme meant to convert policies and plans into reality. If there is no organic link between policies, plans and projects, then the effectiveness and efficiency of investment decisions could be compromised.

Project is an investment activity in which financial resources are expended to create capital assets that produce benefits over an extended period of time (Price J. Gittinger, 1984). It is the smallest operational element prepared and implemented as a separate entity in a national plan or program of economic development. It is a specific activity, with a specific starting point and a specific ending point, intended to accomplish specific objectives. Usually it is a unique activity noticeably different from preceding, similar investments, and it is likely to be different from succeeding ones, not a routine segment of an ongoing program.

The decision making process could include both the public and the private sectors. In the public sector, there will be a political context in which policies and development plans are set. In the corporate decision-making, there are corporate strategic plans, which include the vision, major objectives, strategies and periodic plans. In both types of contexts of decision-making, there is a need for projects, as the cutting edges for converting ideas, intents, and plans into deeds, achieving objectives and bringing changes.

The effects of the project can be traced by using multiplier effects. Multipliers determine by how much the economy will increase or decrease because of a change in final demands. Multipliers are simply the sum of direct effects, indirect effects and induced effects.

Direct effects may be thought of as the revenues, jobs, and wages that a new projects or expanding projects brings into the local economy or removes from the economy as the case might be. Any project expansion or new entry into a market will lead that project to make purchases from and/or sales to local firms. Because of new demand, local firms are likely to create some number of new jobs, increase wages and revenues. All this, in turn, will have an additional impact on the overall economy which is called the indirect effect of the project. While direct effects and indirect effects measure the impacts of business-to-business

interactions, induced effects are specific to the behavior of the labor force. What that means is employees of the new business and the related businesses will spend their earnings in the local economy to purchase items such as food, transportation, housing, medical, etc. This increased consumer spending will have additional impacts on the overall economy.

According to analysis made by Group of Thirty (2013), Consultative Group of International Economic and Monetary Affairs, Inc., countries with high rate investment level have achieved significant economic growth than that of lesser rate of their GDP. The same is true for East Asians, the most successful regional experience in terms of rapid and sustained growth. The East Asian economies have been able to maintain rates of GDP expansion on the order of 8 percent per year, supported by rates of capital formation around 30 percent of GDP (Ross L., 1997).

The contribution of investment projects can also be seen in terms of number of socioeconomic elements. These are wealth and employment opportunity creation, foreign exchange generation, income distribution effect through business profit and employment salary, sectorial linkage effect, international competitiveness, production of goods and services, solving social bottlenecks and the like.

However, with all these contributions, various statistics reveals that the large proportions of projects are failing. According to Trust Leaf (2013), 30 percent of new projects don't last longer than two years and almost 50 percent only last for five years from the world perspective.

With the current rapid growth of the economy, large numbers of projects are entering into the market each year in Ethiopia. However, due to various reasons, lots of projects are failing. According to 2012/13 budget year Annual Progress Report of DBE, numbers of successfully operating projects during the budget year 2012/13 were only 31%. This certainly invoke for immediate solution.

While projects fail, the socio-economic costs are very large. Socio-economic benefits that we would have obtained will become a mere wish. Large amounts of scarce economic and financial resources would become unproductive and waste. The financed Banks would be bankrupted. The owners, employees and managements of the failed projects would be displaced and faced severe problem.

The value of better understanding of failure probably lies in learning from it and eventually preventing future failure or pursuing improved recovery strategies. Learning from the failure experience is therefore critical for it to serve as a positive feedback mechanism (Shepherd, 2003: 318) or as an anticipatory mechanism (Shepherd et al. , 2007: 318) Fortunately, more and more research explores the learning associated with failure as a benefit to the firm for use in future decision making. Individuals do not freely and openly share knowledge about the mistakes they have made (Baumard & Starbuck, 2005: 283). Some members of organizations do not discuss failure and hence do not learn from failures. One reason for this lack of "de-briefing" is fear that colleagues might blame those who participated in failed ventures, and another is managerial hierarchy that reacts to failure by seeking and punishing culprits. Cannon and Edmondson's (2005: 299) earlier proposition states that to learn from failure intelligently requires identifying failure, analyzing failure and experimenting with failure.

This study will, therefore, try to identify the symptoms of the failing projects, factors that are contributing the projects failure and appropriate solutions so as to save the investment projects financed by Development Bank of Ethiopia and gain the maximum benefit to the respective financed Bank, the promoters of the investment projects, the employees as well as management of the projects and society as the whole. This study will also benefit the new entrants to the investment projects so as to take the necessary precaution to protect his/her projects from failure during his/her future carrier.

1.2. Back ground of the organization

The development bank of Ethiopia (DBE) is one of the financial institutions engaged in providing short, medium and long term development credits. DBE’s distinguishes feature is its “project” based lending tradition. Project financed by the Bank are carefully selected and prepared through appraised, closely supervised and systematically evaluated.

Since its establishment in 1909, the bank has been playing a significant role in promoting overall economic development of the country.

The current Development Bank of Ethiopia operates to spur the national development agenda through the provision of customer focused lending to viable projects in line with the Government set priority areas by mobilizing loanable fund from domestic and foreign sources while ensuring its organizational sustainability.

Mission

"The Development Bank of Ethiopia is a specialized financial institution established to promote the national development agenda through development finance and close technical support to viable projects from the priority areas of the government by mobilizing fund from domestic and foreign sources while ensuring its sustainability.

The Bank earnestly believes that these highly valued objectives can best be served through continuous capacity building, customer focus and concern to the wider environment".

Vision

"100% Success for All Financed Projects by 2020"

1.3. Statement of the Problem

As already mentioned in the introduction, the investment projects have significant contribution for the growth and prosperity of one country. As it is obviously known, the policy framework defines the context for periodic development plans (short-, medium- and long-terms plans) which then require specific instruments for implementation. Projects are the policy and plan instruments, a particular decision scheme meant to convert policies and plans into reality. They are the cutting edges of development plans (Price J. Gittinger, 1984). If there is no organic link between policies, plans and projects, then the effectiveness and efficiency of investment decisions could be compromised. Development endeavor without projects is unperceivable. More specifically, projects are the source for wealth, employment opportunity, foreign exchange, goods and services, and government revenue through various taxes. In addition to these, projects have also significant effects on income distribution through business profit and employment salary and linkage between economic sectors. Besides, developing international competitiveness, and solving social bottlenecks are also the advantages of the investment projects.

While it's one thing to be an entrepreneur and come up with an idea, get funding and start an investment project that would benefits society, it's another to achieve success with it. The statistics paint a challenging picture to do so as approximately 30 percent of new projects don't last longer than two years and almost 50 percent only last for five years from the world perspective (Trust Leaf, 2014).

Similarly, in Ethiopia, with the current rapid growth of the economy, large numbers of projects are entering into the market. However, due to various reasons, lots of them are failing. For example, according to 2012/13 budget year Annual Progress Report of DBE, numbers of successfully operating projects by the year 2012/13 were only 31%. This being the case, DBE had set the vision of "100% Success for All Financed Projects by 2020".

The socio-economic cost of those project failures is very large. If we start from the very simple and evident issue, the advantages that have been mentioned above will be multiplied by zero. Growth cannot be achieved and economic downturn will occur. Scarce economic resources that would be invested remain waste.

Evidence shows that the market value of the distressed firms declines substantially (Warner, 1977). Hence, the suppliers of capital, investors and creditors, as well as management and employees are severely affected from business failures. The auditors will also face the threat of a potential lawsuit if they fail to provide early warning signals about failing firms through the issuance of qualified audit opinions (Boritz, 1991; Jones, 1987; Zavgren, 1983).

According to Risk Managements of the Bank's reports, the DBE has been written-off the loan amount of Birr 419.88 million for the 1,230 borrowers which their collection probability exhausted during the period of July 1, 2011 to June 30, 2013 (DBE Risk Management Process reports, 2013). The Bank has also acquired and foreclosed large numbers of unsuccessful project's collaterals which faced insolvency problem during the same period so as to settle their loans. This is a great loss for the bank as well as for the country as the whole. Scarce resources are wasting. The opportunity cost of wasted resources are also countless due to the multiplier effects.

The worst is, as I tried to investigate, there is no formal research that has been made so as to identify and tackle the problem and achieve the maximum possible successful operation of investment projects. DBE is evidently undertaking constant follow-up on all financed projects to maintain their wellbeing. However, even if the Bank is taking constant follow-up and has set the vision of "100% Success for All Financed Projects by 2020", large numbers of projects are failing. According to my view, follow-up is not sufficient to investigate the very causes of the problem and to set appropriate solution. There should be detailed and comprehensive study. Early symptoms of failing should clearly be identified so as to understand the performance of the projects and identify whether the projects are failing or

not. Identification of factors that are contributing to the failure of the projects is also essential to take appropriate measures as early as possible. Unless solving the problem of projects failure will be impossible and it will be a mere wish for DBE to attain its vision. That is why I am interested to carry out this study in order to save the projects from failure by carefully identifying the early symptoms of failing projects and the underlying factors that are contributing to the failure.

1.4. Objectives of the Study

1.4.1. General Objectives

The overall objective of this study is to assess and identify factors that are contributing to the failure of the projects financed by Development Bank of Ethiopia. However, in order to make sure that the project is failing and therefore urging for solutions, the symptoms of the failing projects will also be assessed.

1.4.2. Specific Objectives

The specific objectives of this study are: -

i. Identifying potential factors that are contributing to failure of the projects financed by Development Bank of Ethiopia.

ii. Distinguishing the symptoms of failing projects financed by Development Bank of Ethiopia.

iii. Identifying and recommending appropriate mitigating mechanisms to save the projects financed by Development Bank of Ethiopia from failure.

1.5. Definition of the Terms

- ***Project:*** - Project is an investment activity in which financial resources are expended to create capital assets that produce benefits over an extended period of time. It is the smallest operational element prepared and implemented as a separate entity in a national plan or program of economic development. It is a specific activity, with a specific starting ending point, intended to accomplish specific objectives (Price J. Gittinger, 1984).

- ***Projects Failure:*** **-** A project is considered a failure when it has not delivered what was required, in line with expectations.

- ***Factors:*** **-** the elements that contribute to the failure of the project.

- ***Symptoms:*** **-** Any attribute, phenomenon or circumstance accompanying projects failure and serving as evidence of it are all considered as the symptoms for the projects failure.

- ***Solutions:*** **-** Tools or/and mechanisms that help to solve the problem of projects failure or protect projects from failure are all considered as solution.

1.6. Significance of the Study

The overall importance of the study is saving the projects financed by DBE from failure. However, in order to save the projects from failure, identifying the symptoms of the failing projects is the stepping stone for the solution. Also, unless and otherwise we knew the potential factors that contributing to the projects failure, trying to solve the problem is just firing the gun without knowing the direction of target. As a result, the study will also assess symptoms of failing projects so as to identify the failing project from that of successfully operating projects and furthermore the potential factors that contributing to the projects failure. Therefore, the researched organization will be able to identify the symptoms of the failing projects and their respective potential factors that contributing to the failure of the project so as to take appropriate measures as early as possible.

Furthermore, entrepreneurs, business decision makers, managers, financers and consultants, professional peers, trainers and practitioners engaging on the area of project and project management will also be used the study as an input for their decision making and also give for areas to focus on to undertake further investigation

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

This section has three parts which is the theoretical literature, empirical literature and summery of empirical review and research gap identification so as to analyze and identify the main factors of project failures.

2.1. Theoretical Review

2.1.1. Project Definition and Concepts

While there are several definitions of projects in the literature, Rondinelli, (1983) defined a project as an organization of people dedicated to a specific purpose or objective. Projects generally involve large, expensive, unique, or high risk undertakings which have to be completed by a certain date, for a certain amount of money, with some expected level of performance. At a minimum, all projects need to have well defined objectives and sufficient resources to carry out all the required tasks.

In lines of the definition provided by Pinto & Slevin (1988), and accepted for the purpose of this research, a project can be defined as possessing the following characteristics:

❖A defined beginning and end (specified time to completion).

❖A specific, preordained goal or set of goals (performance expectations).

❖A series of complex or interrelated activities and phases.

❖A limited set of budget or resources.

❖An involvement of several people on an ad-hoc basis.

As Turner (1999), stated a project is an endeavor in which human, financial and material resources are organized in a novel way to undertake a unique scope of work, of given specification, within constraints of cost and time, so as to achieve beneficial change defined by quantitative and qualitative objectives.

- A project is a temporary endeavor undertaken to create a unique product or service. Temporary means that every project has a definite beginning and a definite end. Unique means that the product or service is different in some distinguishing way from all other projects or services.

Gittinger (1972) defines projects as a whole complex of activities involved in using resources to gain benefits. He also explains that generally projects form a clear and distinct portion of a larger, less precisely identified program. The whole program might possibly be analyzed as a single project, but by and large it is better to keep projects rather small, close to the minimum size that is economically, technically, and administratively feasible. If a project approaches program size, there is a danger that high returns from one part of it will mask low returns from another. Project is an activity for which money will be spent in expectation of returns and which logically seems to lend itself to planning, financing, and implementing as a unit. It is a specific activity, with a starting point and a specific ending point, intended to accomplish specific objectives. Usually it is a unique activity noticeably different from preceding, similar investments, and it is likely to be different from succeeding ones, not a routine segment of ongoing operations. It will have a well-defined sequence of investment and production activities, and a specific group of benefits, that we can identify, quantify, and usually determine a money value for. Often a project will have a partially or wholly independent administrative structure and set of accounts and will be funded.

➢ Plans and Projects

As stated by Gittinger (1972), projects provide an important means by which investment and other development expenditures foreseen in plans can be clarified and realized. Sound development plans require good projects, just as good projects require sound planning. The two are interdependent.

Sound planning rests on the availability of a wide range of information about existing and potential investments and their likely effects on growth and other national objectives. It is project analysis that provides this information, and those projects selected for implementation then become the vehicle for using resources to create new income. Realistic planning involves knowing the amount that can be spent on project activities for a particular kind of investment.

Well-analyzed projects often become the vehicle for obtaining outside assistance when both the company and the external financing agency agree on a specific project activity and know the amount of resources involved, the timing of loan disbursements, and the benefits likely to be realized. But project analysis should not be confined to only those investments for which external financing will be sought. In the words of Gittinger (1972), if carefully designed and high-yielding projects are offset by essentially unplanned investments, and then the net contribution to the organizational objectives is substantially undermined.

Projects are a part of an overall development strategy and a broader planning process. Within the broad strategy, analysts must identify potential projects that address the policy and organizational priorities. Generally there are more than one project alternatives available with a company for investment, of these; all the projects being prepared and analyzed should use a consistent set of assumptions about such things as the relative scarcity of investment funds, foreign exchange, and labor. All the project analyses should use the same assumptions about the company policies and objectives to be reflected.

Project is an investment activity in which financial resources are expended to create capital assets that produce benefits over an extended period of time (Price J. Gittinger, 1984). It is the smallest operational element prepared and implemented as a separate entity in a national plan or program of economic development. It is a specific activity, with a specific starting point and a specific ending point, intended to accomplish specific objectives. Usually it is a unique activity noticeably different from preceding, similar investments, and it is likely to be different from succeeding ones, not a routine segment of an ongoing program.

There are different types of projects. Based on the sector difference, the project can be divided into: agricultural, industrial, and service sector projects. We can also group projects into private and public projects based on the ownership. The other way to classify project is size. Based on their size, project can either be small, medium or large scale. All these type of projects involve a capital expenditure decision (investing resources) in expectation of future return.

- **Project Life Cycle**

As maintained by Prasanna C. (2002): A sequence of phases through which a project must pass. There are a variety of definitions that generally reflect different industry practices. The generally accepted sequence is: pre-feasibility (validation of concepts); feasibility (detailed

investigation of viability) design; contract (procurement); implementation; commissioning; handover and operation. Project life cycle generally defines:

(1) The tasks to be accomplished in each phase or sub- phase

(2) The team responsible of each of the phases defined

As advocated by Archibald & Voropaev (2003), there is a general agreement that the four broad, generic project phases are (common alternative terms are shown in parentheses):

(1) Concept (initiation, identification, selection.)

(2) Definition (feasibility, development, demonstration, design prototype, quantification.)

(3) Execution (implementation, realization, production and deployment, design/construct/commission, installation and test.)

(4) Closeout (termination, including post-completion evaluation.)

The number of phases in a project life cycle depends on a variety of factors like nature of industry, type of output, size of project etc. Robert et al (2003) have developed a theoretical sequence of phases that may be identified with most of the projects as is outlined below:

Project management is the application of knowledge, skills, tools, and techniques to a broad range of activities in order to meet the requirements of a particular project. There are phases of project management that, road map to accomplishing the project idea such as conceptual, planning, testing, implementation or execution and closure. It is generally better in planning projects to analyze successive increments or distinct phases of activity; in this way the return to each relatively small increment can be judged separately. Like products follow a product life cycle, projects follow a project life cycle that has certain phases of development. Dividing a big project in manageable chunks makes the complex task of managing projects easier, these chunks in a sequential form can be termed as project phases which can further be divided into sub-phases and a collection of these phases makes what is called as a project lifecycle. Each project phase is marked by completion of one or more deliverables. Although many project life cycles have similar phase names with somewhat similar deliverables required, very few are identical. Most have four or five phases, but some have nine or more.

Sub-projects within projects may also have distinct project life cycles. Importantly, these phases are not always consecutive in nature but are more simultaneous.

➢ Characteristics of Project Life Cycle

In all project types, there are basic characteristics that they share. Based on the above definitions, the basic characteristics that the projects exhibits are:

- A project involves the investment of scarce resources in the expectation of future benefits;
- There are measurable Objectives of a project. Projects have specific of benefits that can be identified, quantified and valued, either socially or monetarily/commercially/.
- A project is the smallest operational element unit due to the fact that it is conceptually, geographically, organizationally, and time bounded. A project can be planned, financed and implemented as a unit.
- Uncertainty and risks is inherent in any project. Achieving project objectives cannot be predicted in advance with accuracy.
- It has a scope that can be categorized into definable tasks. Projects usually have well defined sequence of investment and production activities.

2.1.2. Project Failure definition and concepts

There is no commonly accepted definition for project failure. The definition adopted for the purpose of this study is the operational definition by NBE Directive 2012, which defines Non-performing Loans as loans whose credit quality has deteriorated such that full collection of principal and/ or interest in accordance with the contractual repayment terms and conditions is not realized for more 12 (Twelve) months from the scheduled payment date or maturity. These loans categorized under:

1. **Substandard:** Medium and long term loans past due 12 (Twelve) months or more, but less than 18 (Eighteen) months.
2. Doubtful: Medium and long term loans past due 18 (Eighteen) months or more, but less than 3 (Three) years.

3. Loss: Medium and long term loans past due 3 (Three) years or more NBE directive No SBB/52/2012 sub 7.1.3.

Different authors define project failure from different perspective and context. According to Carlos (2002), a project is considered as failed when it has not delivered what was required, in line with expectations. Therefore, in order to succeed, a project must deliver utilizing the minimum cost possible, the expected quality, and on the time scheduled; and it must deliver the benefits presented in the business case.

Even if a project has delivered everything that was in the detailed project designs, it may still be considered a failure if it did not include vital elements that the key stakeholders needed (Carlos, 2002). According to him, project success and failure is not just about the facts, nor is it simply about what was delivered. It is also, crucially, about how the project is perceived.

McConnell (2010) expanded the definition of project failure more than expectation. According to him, project failure is a situation when a given project, which consumes human, material and financial resources, fails to deliver an acceptable return on investment, so it is terminated before the completion, no sufficient value is produced, and no benefit is delivered to the customer. The project is considered "failed" when it does not produce results as proposed, exceeds its budget and time, and does not meet specifications. He concludes that a project is termed as failed when it does not meet the following criteria:

- It is delivered out of schedule (time constraint);
- It is delivered out of budget (cost constraint);
- It is delivered out of scope (scope constraint); and
- The project product does not work as expected.

The Ethiopian Foreclosure law (proclamation number 97/1998, Article 3) states that the bank financed business can be considered as failed and foreclosed when a Bank's claims are not paid within the time stipulated in the contract. This definition is also contextually similar with McConnell definition that says projects are considered as failed if not produce results as proposed or expected, because Bank financed projects are expected to settle their debt as per loan contract agreement.

According to Bruno & Leidecker (1988:51-52) Failure is a process that occurs over time; it is not a sudden death. Jonsson (1991: 7) approaches failure as a downward spiral of decline.

Something less than that required: something that falls short of what is required or expected. Breakdown of something: a breakdown or decline in the performance of something, or an occasion when something stops working or stops working adequately. He also expands his definition as lack of development or production: inadequate growth, development, or production of something.

Altman (1993:4-5), also defines business failure which is characterized by cessation of operation following assignment or bankruptcy, execution, foreclosure, or attachment; and those voluntary withdraw leaving unpaid obligations, or have been involved in court actions, and those voluntarily compromise with creditors and result in losses to the creditors;

2.1.3. Developmental Role of Projects

Projects are the cutting edges of development plans (Price J. Gittinger, 1984). Development endeavor without projects is unperceivable.

Thus, a fundamental ultimate aim of an investment project undertaken by a country is to contribute as much as possible to the national income. National income may be translated at the project level as net value added which consists of two major components salaries and wages and an excess that may be called social surplus.

The effects of the project can also be traced by using multiplier effects. Multipliers determine by how much the economy will increase or decrease because of a change in final demands. Multipliers are simply the sum of direct effects, indirect effects and induced effects.

McConnell (2010) expanded the definition of multipliers as:

- ***Direct Effects: -*** These may be thought of as the revenues, jobs, and wages that a new projects or expanding projects brings into the local economy-- or removes from the economy as the case might be.

- ***Indirect Effects: -*** Any project expansion or new entry into a market will lead that project to make purchases from and/or sales to local firms. Because of new demand, local firms are likely to create some number of new jobs, increase wages and revenues. All this, in turn, will have an additional impact on the overall economy.

- ***Induced effects:*** **-** While direct effects and indirect effects measure the impacts of business-to-business interactions, induced effects are specific to the behavior of the labor force. What that means is employees of the new business and the related businesses will spend their earnings in the local economy to purchase items such as food, transportation, housing, medical, etc. This increased consumer spending will have additional impacts on the overall economy.

2.1.4. Determinants and Causes of Business Failure

Scholars dwelling on project in general identified various causes for project failure /NPL/. Some of the scholars' views are as follows:

- **Unknowledgeable Requirements Set**: (Enzo, 2012) Project failure due to poor requirements management takes place when the project team delivers the product without having a clear understanding of what the customer wants and without having any real knowledge of the requirements. **Scope Creep**: (Yescombe, 2002) the next of the top project failure reasons refers to a situation when project scope does not correlate with other constraints like time and cost, and the project is likely to be delivered over budgeted and delayed.

- **Absence of Change Control System:** (Enzo, 2012) A change may create a new condition within your project. If no change controls system is introduced, your team will fail to respond to the new condition. Uncontrolled changes will cause project failures.

- **Project follow up attributes:** Rondinelli, (1983) the key goal of the follow-up process is to monitor the course of a project and adjust project activities when needed to ensure effectiveness of project results. The project follow-up process starts with the beginning of project activities, lasts throughout project implementation, and ends up with completion of project goals. Another name of this process is project delivery management.
- **Policy induced variables:** (Yescombe, 2002) refers to nation wise and bank level investment and business related policies and procedures. These variables are expected to have positive and/or negative effect on project finance performance of the bank.

- **Commodity nature attributes:** (Yescombe, 2002) it is quite clear that risk exposure of all commodities/products is not the same.
- **Source of equity contribution:** Rondinelli, (1983) as it is, known Banks do not provide 100% finance in establishing development projects. Promoters/borrowers are expected to raise some amount of total project cost.
- **Credit evaluation criteria**: McConnell (2010) project return overestimation leads to financing of unviable businesses in addition to shortening of payback period. Short payback period means short repayment period since project financing solely depends on cash flow for its repayment. The repayment over burden created because of short repayment period leads to incapability to serve the debt commitment and project failure.

Most business failures seem to be due to economic factors, financial causes, and lack of experience on the part of the owners of the business. Business problems lead to inadequate sales and heavy operation expenses, hence cash flow problems and inability to meet obligations (Moyer, Mc Guigan & Kretlow, 2001, p.801).

The Economic Analysis Department of Dun and Bradstreet Corporation have identified the seven primary factors that leads to business failure with their respective share which depicted on the below table.

Sr. No.	Underlying Causes	Percentage Share
1	Economic factors (e.g. industry weakness, insufficient profits)	41.0%
2	Finance factors (e.g., heavy operating expenses, insufficient capital)	32.5%
3	Experience factors (e.g., lack of business knowledge, lack of line experience, lack of management experience)	20.6%
4	Neglect (e.g., poor work habits, business conflicts)	2.5%
5	Fraud	1.2%
6	Disaster	1.1%
7	Strategy factors (e.g., receivables difficulties, over expansion)	1.1%
Total		**100%**

(Source: The Dun and Bradstreet Corporation, Economic Analysis Department, March 1991. Results are based on primary reason for failure)

The factors leading to business failures vary (Charitou, Neophytou & Charalambous, 2004:465). They report that economists attribute the phenomenon to high interest rates, recession- squeezed profits and heavy debt burdens. Reasons vary depending on the researcher's focus. Longenecker, Simonetti & Sharkey (1999: 503) suggest four schools of thought about the causes of business failure, namely: *Failure at the top*, when the management at the top fails to take their responsibility, *Customer and marketing failures*, where failure takes place when there is no proper follow ups and guidance of customers, *financial management failures* and *system and structural failures*. Finance is often cited as the ultimate cause of f business failure. Most works, however, use finance as a predictor of potential business failure (bankruptcy) and it is suggested that weak cash flow is due to business-related causes rather than being the cause of business failure itself (Ooghe & de Prijcker, 2008: 223). Topping the list is venture debt (leverage) (Bollen, Mertens, Meuwissen, Van Roak & Schelleman, 2005: 8; Scherrer, 2003: 57), whether being too much or incorrectly structured. Financial conditions follow, being due to working capital deficiencies or cash- flow influencers such as stock levels, credit days and others (Hofer, 1980: 21).

2.1.5. Process of Business Failure

Where there is uncertainty, there is bound to be failure. It is not surprising; therefore, that many new ventures fail. What happens to entrepreneurs when their project fails? People hear of highly successful entrepreneurs extolling the virtues of failure as a valuable teacher. Yet the aftermath of failure is often fraught with psychological, social, and financial turmoil.

Argenti (1976), which suggests that the failure process follows a predictable sequence:

- ***Defects***

Defects can be divided into management weaknesses and accounting deficiencies as follows:

- *Management Weaknesses:* - Includes autocratic chief executive, failure to separate role of chairman and chief executive, passive board of directors, lack of balance of skills in management team- financial, legal, marketing, etc., weak finance director, lack of 'management in depth', and poor response to change.
- *Accounting Deficiencies:* - Includes lack of budgetary control, lack of cash flow plans and absence of costing system.

❖ ***Mistakes***

If a company's management is weak, then Argenti suggests that it will inevitably make mistakes that may not become evident in the form of symptoms for a long period of time. The failure sequence is assumed to take many years, possibly five or more. The three main mistakes likely to occur (and attached scores) are:

- *High Gearing:* - A company allows gearing to rise to such a level that one unfortunate event can have disastrous consequences.
- *Overtrading:* - This occurs when a company expands faster than its financing is capable of supporting. The capital base can become too small and unbalanced.
- *The big project:* - Any external/internal project, the failure of which would bring the company down.

❖ ***Symptoms of Failure***

The final stage of the process occurs when the symptoms of failure become visible. Argenti classifies such symptoms of failure using the following categories:

- *Creative Accounting:* - Optimistic statements are made to the public and figures are altered (inventory valued higher, depreciation lower, etc.). Because of this, the outsider may not recognize any change, and failure, when it arrives, is therefore very rapid.
- *The Financial Signs:*- These are where the business faces budgetary deficit.
- *Non-financial Signs:* - Various signs include frozen management salaries, delayed capital expenditure, falling market share, rising staff turnover.
- *Terminal Signs:* - At the end of the failure process, the financial and non-financial signs become so obvious that even the casual observer recognizes them.
- *Other signs like company-specific variables:* - Such as management experience, customer concentration, dependence on one or a few suppliers, level of

diversification, qualified audit opinions, etc. general characteristics – such as industry type factors in the external environment – such as the macroeconomic situation, including interest rates, the business cycle, and the availability of credit.

Initial under capitalization and assuming debt too early are the two important exceptions from the factors cited as reasons for failure of firms in the 1960‟s to the 1980‟s such as product timing, product design, inappropriate distribution or selling strategy, unclear business definition, over reliance on one customer, problems with the venture capital relationship, ineffective team, personal problems, one-track thinking, & cultural/social factors (Bruno & Leidecker, 1988:54-56).

2.2. Mitigating Projects Failure

Perhaps the best way to avoid failure is to examine the myriad explanations for business failure. Many books and articles have focused on identifying reasons for failure as a remedy for prevention. One of the more significant earlier works was by Ross and Kami (1973); they gave "Ten Commandments" which, if broken, could lead to failure. These are:

- You must have a strategy.
- You must have controls.
- The Board must participate.
- You must avoid one-man-rule.
- There must be management in depth.
- Organize to meet employees‟ needs.
- Keep informed of, and react to change,
- The customer is king,
- Do not misuse computers.
- Do not manipulate your account and.

2.3. Empirical Results and Facts

So far, the researcher found two articles produced on factors of default in project finance, in the case of Commercial Bank of Ethiopia by Fikirte (2015). And Adamu, (2013) on the factors that determines failure for project financed by Development Bank of Ethiopia. Adamu, (2013) applied explanatory research; fifteen determinant variables were used to

measure their significance for DBE financed projects failure. All of the variables, except project implementation time overrun have shown that the expected magnitude of influence on the dependent variable (project failure) were significant. One of the key findings of the researcher revealed and inducted that decrease of project failure as time overrun increases for project implementation. According to the researcher's observation, this was attributed to the intervention of the Bank to protect the projects from failure through rescheduling of loan repayment, reallocation of loan and interest payment weaving. These corrective measures were found statistically significant in reducing project failure. The project specific explanatory variable, project size that proxies by investment cost of the project was exhibited the same effect on project performance and statistically insignificant. Out of three project specific variables included in the study two variables (sales shortfall and recruitment variation) were found statistically significant. The remaining, relevance of the project owner's educational background or experience was found statistically insignificant. These statistically significant variables, sales shortfall and recruitment variation clearly have shown that the seriousness of marketing knowledge gap and poor understanding about the importance of human resource for project success respectively in case of Ethiopian project owners.

Regarding creditor (Banks') specific explanatory variables, the study considered operational projects and estimated the significance of cash flow over estimation for project failure. Loan appraising capacity and technical support were mentioned as project success cause in this study but not measured in any of regression model they used. In the study he considered as explanatory variables and measured in logit model. However, their estimation in logit model has exhibited that the insignificance of cash flow overestimation and technical support through follow-up operation for DBE project failure

According to the findings of the researcher overestimation of cash flow, the result indicated that the positive relation of the variable for project failure.

Even though, investment cost overrun of the project used to measure different explanatory variable in his study, the result of the same has shown similar magnitude on project performance and statistically significant. The impact of economic growth on project performance measured using GDP indictor of the economic sub-sectors in which the project is categorized considered in this study. The estimation of this inductors has shown that

statistical not significant Adamu, (2013). In the study macroeconomics explanatory variable, inflation rate is tested but found statistically insignificant.

Regarding sociopolitical variable, the researcher, Adamu, (2013), had used population size, political regions, literacy level and religion dominancy. The estimation results of population size in the study has shown that the statistical significance of the variable and similar direction of influencing project performance. The sociopolitical variables, the result of literacy level has shown statistical significance for project failure. Political regions and religion dominancy, which captured by dummy variable are also found statistically insignificant.

Fikirte, (2015), used survey method of data gathering instruments survey, document review and an in-depth interview. The questionnaire was distributed to all 52 credit officers in Commercial Bank of Ethiopia, but only 40 have completed and returned successfully. According to the study most of the respondents had ample experience in the banking area as well as in the credit process. Moreover, they were well qualified. Hence, they had a better knowledge in project finance and determinants of default. According to Fikirte, (2015), the results obtained from the survey on; bank specific determinants of project failure, borrower specific determinants of project failure and external factor determinants of project failure are summarized against the literatures and presented as follows.

- **Bank Specific Determinants of Project Failure**

The empirical study made by Fikiret (2015) indicates the existence factors in connection with credit origination i.e. poor due diligence assessment to know the customer and weak credit negotiation have found to be the major determinant of loan default as per the results obtained from the survey. In addition the interview result also affirms these facts.

Weak credit assessment made by the Bank and lack of proper skills of the loan officers were found to be the cause of default. However, speedy loan processing due to external pressure as a factor for loan default was not supported by the survey result.

Additionally, there is a significant relationship between over-finance and the occurrence of NPL, as the survey result indicated. The survey result also indicates the existence of strong relationship between poor loan monitoring and NPL. Moreover, according to the researcher the interview result and the document study have supported such finding.

However, inadequate debt recovery regulations were not mentioned as a cause of default, as per the study made by Fikirte (2015).

- **Borrower Specific Determinants of Project Loan Default**

Fikirte, (2015), factors in connection with the character of the borrower, the integrity of the borrower, fund diversion and willful default as a cause of default. Selection of unsuitable and unviable schemes and projects are found to be the cause of default. In connection with management capacity problem, knowledge limitation of the borrower and performance of the entrepreneur as cause of loan default.

- **External Factors Determinants of Project Loan Default**

Fikirte, (2015), data or information constraint was the major external cause of default as the survey result indicated. Additionally, inflation and exchange rate fluctuation as significant factors for loan default. However, GDP growth, lack of infrastructure and government policy had not obtained much support by the survey result.

2.4. Summary & Research Gap

Based on the above empirical studies determinants of default can be categorized as external/ macroeconomic factors, bank specific factors or borrower specific factors. External macroeconomic factors includes natural disaster, government policy, interest rate, energy crises, unemployment, inflation, GDP growth, exchange rate, sensitivity to change in inflation, economic cycle, exchange rate, unemployment and asset and house price as a major external determinants of loan delinquency.

Bank specific determinants of non-performing loan is also identified by Fikirte, (2015) as week credit assessment, lack of proper skill by the loan officer, speedy loan processing due to external pressure, agency problem, credit policies, loan recovery procedures, loan appraisal process, lenient credit terms, credit growth, poor credit assessment, aggressive lending, compromised integrity, ownership structure of the bank, bank size and weak institutional capacity.

Borrower specific determinants of non-performing loan are identified by various studies as integrity of the borrower, lack of technical training for loan beneficiaries, under-developed

credit culture, and willful default by the borrower, knowledge limitation of the borrower, fund diversion for unintended purpose and misuse of loan amounts as a reason for default.

Various determinates of non-performing loans have been identified by Adamu, (2013), and Fikirte, (2015) these determinates have been categorized under three broad categories namely external factors, bank-specific factors and borrower's specific factors. However, the following gap is identified in the literatures;

Adamu, (2013), and Fikirte, (2015) studies have emphasized more in specific sector, sub sector, commodity, product, private borrowers, branch and borrower's characteristics. But none of them assessed investment project failures: factors, symptoms, and solutions separately and exhaustively as this study.

Considering the above gap, this study therefore is aimed at assessing investment project failures: factors, symptoms, and solutions.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1. Research Design

The study used mixed research design approaches. Mixed methods are especially useful in understanding contradictions between quantitative results and qualitative findings. It reflects participants' point of view. Mixed methods give a voice to study participants and ensure that study findings are grounded in participants' experiences. The researcher has chosen this method since it has also the following advantages:

Triangulation: using more than one method to collect data on the same topic. This is a way of assuring the validity of research through. The use of a variety of methods to collect data on the same topic, that involves different types of samples as well as methods of data collection. It will help to converge the data collected by all methods in a study to enhance the credibility of the findings.

Complementarity: **-**Research synthesis serves as a cover term for any attempt to review the literature related to a specified topic, either narrowly or broadly defined. In the context of this special issue, complementarity refers to how two different approaches to conducting a research synthesis can in combination provide a more advantages in gaining a fuller understanding of the research problem and/or to clarify a given research result.

Development: **-**The body of research literature that directly pertains to instructional development is known as developmental research. It is the systematic study of designing, developing and evaluating instructional programs, processes and products that must meet the criteria of internal consistency and effectiveness. ”Mixed methods often aid in the development of a research project by creating a synergistic effect, whereby the “results from one method… help develop or inform the other method” (Greene et al., 1989, p. 259).

It is qualitative because typical data collection method used semi structured interview and questionnaire. The interpretative phenomenological analysis drawing on the sampled projects that experienced failure will be qualitatively interpreted. Quantitative method will be used for statistical analysis of questionnaire data collected from a sample.

3.2. Sampling Method

The populations of the study are grouped into two: DBE employees and projects financed by the Bank. From the DBE side, not all staffs are taken as a population. Only part of the staffs has attachment with project financing. The structure of DBE staffs that has an attachment with project financing composed of four major sub divisions: credit process, appraisal sub-process, project rehabilitation and loan recovery, and loan approval team. The units of analysis in the study is the projects which is being financed From the period July01, 2012to June 30,2016and which has been started operation and stayed for a minimum of one year and the target population is 26 project promoters and project manager taken from the financed projects and 24 credit performers was considered, thus the total number of respondents are 50 since these population is very low and manageable, there is no need to take sample. In addition, banks annual report and loan recover and rehabilitation reports has been used as secondary data

The sampling technique is random sampling, judgmental, and partly purposive decisions. However, in order to minimize non respondents and refusals, voluntary participants was accepted.

3.3. Instrumentation

Questionnaire is the primary instrument that was used for primary data collection. However, interview will also be used to fill the gap between the planned and actual available information. The questionnaires will be self-distributed and administered in order to protect the occurrence of Hawthorne effect.

3.4. Data Sources and Collection

Sources of data for this study are both primary and secondary data. The primary data was collected through self-administered questionnaire and structured interview. Secondary data was collected from annual reports and project follow-up reports of DBE, financial statements of the sampled projects, Ethiopian Investment Agency reports, World Bank manuals, internet and other relevant materials.

The data collection procedure was made by distributing questionnaires to the identified group of population from DBE staffs and key staffs of sampled unsuccessfully operating projects.

3.5. Data Analysis

After collecting the data, sorting and arranging of the data into different types depending on the sources of information has been taken and reading the data to get the general sense of information and to reflect the overall meaning. To analyze the collected data, tables, percentages and ratios will also be used. The critical analysis, interpretation and the meanings of data will be analyzed for the variables.

3.6. Scope of the Study

The scope of the study is limited to the investment projects financed by Development Bank of Ethiopia. The area of assessment is limited to the symptoms of the failing projects and the factors that are contributing to the failure of the projects financed by the respective organization so as to breakthrough and set appropriate mitigating solutions.

3.7. Limitation of the Study

Since the study is case study which limited to the specific organization, it may lacks greater generalizability to the wider context of the field of the study. In addition to this, even if taking random sampling is better to avoid selection bias effect, voluntary participants was encouraged so as to minimize non respondents and refusals. However, this in turn will induce the selection bias effect which will pose threat to internal validity. Also, even if voluntary participants will be encouraged to minimize non respondents, it will be inevitable.

3.8. Ethical Consideration

Ethical issues are the concerns and dilemmas that arise over the proper way to execute research, more specifically not to create harmful conditions for the subjects of inquiry, humans, in the research process (Schurink, 2005: 43). We are very much aware of the big responsibility to be sensitive and respectful of research participants and their basic human rights and fully respect the ethical values of the research. In particular, we will ensure the following throughout the study:

i. Explain the aim and objectives of the study as well as the procedures to be followed up front to everybody taking part in the research;

ii. Make it clear to them that participating in the study is voluntary;

iii. The privacy of everybody taking part in the study will be respected at all time and that everything they share will be treated as confidential; and

iv. Absolutely no falsification or distortion in reporting the data collected during the study.

3.9. Organization of the Research Report

The research paper has four chapters. The first chapter is an introductory part which encompasses the topics that have already been dealt. The second chapter deals with literature review. Under this topic, the work of previous scholars on the field of the study will critically be reviewed. Chapter three will discuss about the findings of the study with data analysis, presentation & interpretation. The last chapter will include summary of findings, conclusions, and the recommendation parts.

3.10. Research Questions

The integral question of the study is ***"What are the symptoms of failing, the potential factors that are contributing to the failure, and the appropriate solutions for the failure of projects financed by Development Bank of Ethiopia?"*** When we decompose this question into pieces, the study will try to answer the following questions:

i. What are the potential factors that are contributing to the failure of projects financed by Development Bank of Ethiopia?

ii. What are the symptoms of the failing projects financed by Development Bank of Ethiopia?

iii. What are the appropriate solutions to save the projects financed by Development Bank of Ethiopia from failure?

CHAPTER FOUR

4. RESULTS AND DISCUSSIONS

This chapter deals with presentation and discussion of data being collected. The first section of this chapter deals with respondent's profile, including their current position in the bank and project, their experience in the overall banking and project area, and their educational qualifications. The second part describes survey, document analysis and semi structured interview result upon project specific related cause of project failure, including poor implementation, management problem, poor governance, size of the project, technical failure, market and marketing problem, quality of manpower failure, missing of objective, losses because of uninsured items damage, financial insolvency of the promoter and absence of change control system. The third part assesses the survey results, interview and document analysis on the credit specific factors in connection with the over appraisals of collateral, project planning capacities of the financers, follow up level or providing technical advice, over estimation of return from the project and appraisals of projects proposal using current price rather long term money value.

The fourth part describes respondents' opinion and document analysis on macroeconomic and socio-political environment in connection with change in economic policies, mismatch and change in exchange rate, increases in energy price, continuous rise of price of product, raw materials and wage, literacy level, religion diversity, jurisdiction system, government officials perception, the intervention of political leader on projects and the problem of corruption and related cases. Originally 50 questionnaires were prepared, and from these questionnaires, 35 questionnaires distributed to those who were available in their workplace at the time of surveying while the remaining15 were sent by email, fax and through another person to those who were not available. From the 50 questionnaires, all are filled and returned successfully. Hence, 100% questionnaires are responded successfully.

4.1. Respondent's profile

This section shows the respondent's profile regarding their current position in the Bank, their experience in the overall banking business and project area as well as in the credit area and their educational qualifications.

Respondents' gender

Out of total responses, 78% were male and 22% were female. This shows that respondents are dominated by male.

Table 4.1: Sex of respondent

Sex	Frequency	Percent
Female	11	22
Male	39	78
Total	50	100

Source: survey result and own computation

Respondents' Current Position in the Bank and in the project

30% of the respondents are General Manager or project promoter followed by credit appraisal officer, project manager, due diligence team member, loan review team member and loan recovery team member whom accounts 24%, 18 %, 12 %, 8 %, 8 % share respectively (See table 4.2). The respondents' current positions in the Bank and in the project being financed indicate that half of the respondents participate in project management and the remaining participate in project finance, from credit origination to final loan recovery work process.

Table4.2. Respondents' current position in the Bank and in the project

Position of respondent	Number	Percent
Loan appraisal officer	12	24
Loan review team member	4	8
Due diligence team member	6	12
Loan recovery team member	4	8
Project promoter	15	30
Project manager	9	18
Total	50	100

Source: survey result and own computation

As mentioned earlier, a large portion of the respondents are general manager or project promoter. Since, in the population also customer relationship managers hold a great number of all credit performers. In addition, Customer Relationship Managers have a relatively more exposure in the project financing process from recruiting the customer to final loan disbursement and follow-up.

Furthermore, they have a great contact with the customers.

Respondents' Experience in the Bank and in the project

As shown in the following table, 88 % of the respondents' have an experience of less than 5Years in the Bank and in the project, while 12% have more than 5 years of experience (See table4.3) from this we can deduce that few respondents are experienced.

Table 4.3: Respondents Experience in the Bank and in the project

Years of experience	Number	Percent
1-5 years	44	88
5-10 years	6	12
Total	50	100

(Source: Survey Result and own computation)

Respondents' Educational Background

With regard to the educational background of the respondents', 84% have at least Bachelor degree, 18% have at least master degree and 16% are below bachelor degree (See table 4.4.)

Hence, we can see that the respondents are well qualified.

Table 4.4. Educational Background of the respondents

Education	Frequency	Percent
<BA/BSC	8	16
BA/BSC	33	66
MA/MSC	9	18
Total	50	100

(Source: Survey result and own computation)

In general, the respondents' profile indicates that most of them have adequate qualification which we can obtain relevant information regarding the issues being studied.

4.2. Project specific cause of project failure

Table 4.5. Project specific Cause of project failure

Project Specific Cause of Project Failure	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)
Project Implementation	2	12	2	46	38
Management Problem	4	2	4	40	50
Poor Governance	4	22	12	32	30
Size of the Project	18	30	18	32	2
Technical Failure	4	6	20	48	24
Market and Marking Problem	4	16	10	42	28
Quality of Manpower Failure	10	16	8	48	18
Missing Objectives	8	12	18	48	14
Losses because of Uninsured Damage	12	24	28	26	10
Financial Insolvency of the Promoter	4	8	18	64	6
Absence of Change Control System	6	20	16	46	12

From the above result 84% of the respondents support that poor implementation of project can cause a financed project to fail, like wise too few respondents (2%) are neutral in this case while14% of the respondents are responded that a problem of implementation has no impact on project failure. Upon management problem, 50% and 40% of the respondents are strongly agreed and agreed respectively and 4% are neutral in the case and the remaining 6% are conformed that management problem has no effect on project failure. From this figure we deduce that management problem is highly responsible for a financed project to fail.

In relation to the size of the project 18% of the respondents are strongly disagreed that size of the project is not cause for a project to fail, 30% of the respondents are disagreed on that project failure is not caused by the project size on the other hand 34% of the respondents support size of the project causes a financed project to fail and 18% of the respondent result shows that they have no stand on this case .hence from this we can infer that 48% of the respondents declined that this factor is not a basic reason for failure.

Based on the above survey result,72% of the respondent conforms that technical failure is a cause for project failure while 10% of them are not agreed on the issue and 20% of them are neutral on the case of technical failure and its impact on project failure ,hence from the respondents response, we can generalize that technical failure is highly responsible for a given project financed by the bank and market and marketing problem are also ensured by 70% of the respondents as if it can cause a project to succeed or fail while 20% respondents

don't agree that project failure can't be caused by market and marketing problem and also form the presentation the respondents have agreed that quality of manpower failure ,missing objectives ,financial insolvency of the promoter and absence of change control system are causes for a financed project failure because 66% of response tell us manpower failure is causing for project failure, 62% of the respondent's result conforms that missing objectives affects project failure directly and 58% of the respondents supports that absence of change control system affects project failure directly while 26% of the respondents disagreed that absence of change control system doesn't impact a project to fail. Therefore, we can conclude that this factors influence project failure directly. In addition document analysis of loan recovery report describes that management problem or lack of adequate knowledge and experience on how to manage the finance given by the bank by the promoter, problems of market and marketing problem, shortage and price fluctuations of raw materials and delay in implementing the project such as construction for working progress and procurement of machineries and in raising equity contribution as per the agreement are the major project specific causes of project failure financed by the DBE. Moreover, In order to get deep understanding about the cause of project failure financed by the bank in depth interview was conducted with senior or experienced bank credit officers and the conformed that absence of skilled and quality manpower in the project or not having the right person for the right position, poor project planning capacities of the promoter, market problem **,**low project management capacities of the project manager and delay in project implementation which means the customer is delayed due to unwillingness to block the equity contributed by promoter are the major causes of project failure which is supplemented by the interview .

4.3. Credit management related factors of project failure

Table: 4.6. **Credit management related cause of project failure**

Credit management Related Cause of Project Failure	**Strongly Disagree (%)**	**Disagree (%)**	**Neutral (%)**	**Agree (%)**	**Strongly Agree (%)**
Over appraisals of collateral	10	38	22	18	12
Project planning capacity of the financer	16	24	22	34	4
Follow up level/ providing technical advice	4	8	18	56	14
Over estimation of return from the project	8	18	20	50	4
Appraisals of project proposal using current price	6	16	18	52	8

Upon credit management related cause of project failure, respondents are asked on over appraisals of collateral and its effect on project failure and from these 38 % of respondents are disagreed and 10% of respondents strongly agreed while 22% are neutral and 30 % are agreed on the impact of over appraisals of collateral on project failure, hence from this we can deduce that nearly half of the respondents response has shown that over appraisals of collateral has no impact on the financed project to fail and also upon project planning capacity of the financers, 40 % respondents don't agree that project failure cannot be caused by it and on the other hand 38 % are agreed that project failure is caused by project planning capacity of the financers and the remaining are neutral in this issues.

Follow up level/ providing technical advice, over estimation of return from the project and appraisals of project proposal using current price are responded as if it causes a project to fail. Since 70% of the respondents are agreed on follow up level or technical advice can cause a project failure and followed by this 54% and 60% respondents have supported over estimation of return from the project and appraisals of project proposal using current price respectively.

Document analysis have been undertaken upon credit management related factors and it has been reported that lack of strict follow-up of financed projects by the credit performers, poor credit analysis made by the bank such as Lack of proper market and project viability study made by the bank, over estimation of cash flow or revenue from the project during appraisal and absence of reliable price, market and cost of production data for project planning purpose are the major factors addressed for a financed project to fail and also to triangulate the result found from survey and document analysis an in depth interview were held with senior credit officers and the response is summarized that lack of pertinent credit policies set by the bank, poor follow up function or activities in the bank advice given by the bank, improper credit appraisal (analysis) made by the bank or error in estimating the return of the project, lack of in depth due diligence (KYC) assessment on potential borrowers/credit applicants and over appraising collateral are the major factors of project failure supported by the interviewee.

4.4. Macro environment factors of project failure

Table: 4.7. Macro –Economic Environment factors

Macro –Economic Environment Factors	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)
Change in economic policies	6	22	12	50	10
The miss much and change in exchange rate	4	26	18	38	14
Increase in energy price /electric city/gas	8	26	26	36	4
Continuous rise of price of the product, raw materials	2	12	12	60	14

The statement change in economic policies affect project failure has ensured by 60% of the respondents which means they have agreed with change in economic policies has an impact on project failure financed by the bank on the other hand 28 % of the respondents have disagreed the impact on project failure while 12% are neutral in this case and also 52 % and 74 % respondents have agreed that the miss much and change in exchange rate and continuous rise of price of the product ,raw materials and wage causes project failure respectively. From the document being analyzed, lack of foreign currency to import raw materials is a single cause for a project to fail in this section.

The semi structured interview result has depicted that sudden change in economic policies and continues rise of raw materials and wages are the major factors for a financed project to fail.

4.5. Socio-Political Environment Factors Causes of Project Failure

Table: 4.8 Sociopolitical Environment factors

Socio-Political Environment Factors	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)
Literacy level	10	16	24	38	12
Religion diversity	24	32	28	16	0
Jurisdiction system	8	26	26	34	6
Government officials perception	6	20	16	42	16
Intervention of political leader on projects	10	30	2	34	24
Problem of corruption and related cases	4	8	2	30	56

From the above survey result, it has been shown that respondents have supported that literacy level, government officials perception and problem of corruption and related cases can cause

a financed project to fail since 50%, 64% and 86% of the respondents response has told that these factors affects the issue respectively. Hence from this figure, we can conclude that the problem of corruption and related cases has significant impact on project failure followed by government official's perception towards the project being financed. On the other hand few respondents don't agree with issue of problems of corruption and related cases, literacy Level, government official's perception.

In the same way 56% respondents disagree with religious diversity affect project performance where as 28% are neutral while too few respondents (16%) of the respondents have accepted that religious diversity has no impact on project failure. Thus from this we can deduce that religious diversity has no effect on project success or failure since more of the response has indicated that it cannot impact project failure. Upon Jurisdiction system, 34% of the respondents agreed, 6% of them have strongly agreed while 8% have strongly disagreed, 26% of them disagreed and the rest are neutral, hence from this we can deduce that more response is being received as if Jurisdiction system can be a cause for a financed project to fail. Therefore, out of the socio political factors problem of corruption and related cases, government officials perception, intervention of political leader on projects and literacy level are caused a banked financed project failure whereas religion diversity is not responsible for banks financed project success and also the semi structured interview confirmed that unnecessary intervention of external bodies during credit assessment and approval decision and the problems of corruption and good governance within the project life cycle.

4.6. Symptoms of Investment Project Failure

Like all organic failures, projects exhibit clear symptoms as the process of degradation proceeds. Lack of an agreed Business Case [scope, objectives, benefits, costs, risks, quality agreements and so on] and stakeholder commitment such as formal stakeholder agreements before commencement are obvious signs of a project that will fail. However, more subtle signs may emerge later.

Early symptoms

- **Lack Of Project Plan And Business Case Updates**

As discussed by Thomsett, Jones and others, most projects are subject to change and, as a result, the original Business Case and the associated project plans should be subjected to clear

and managed project change control. The absence of a series of changes approved by the Sponsor, Steering Committee and stakeholders is a potential sign of communication breakdown between the project manager and sponsor.

- **Lack Of Stakeholder Communication**

Thomsett [1993, op cit] discussed in a well-managed project, stakeholders are involved in planning the project and are regularly briefed on the progress of the project. Poor or no stakeholder communication on a regular [at least monthly] is a potential sign of failure.

- **No External Involvement In Quality Assurance**

All formal quality assurance processes involve some independent external person being involved in detailed technical reviews of the deliverables and the project development and management process. As a project begins to fail, it looks inward and external reviews are avoided.

Fatal symptoms

- **Excessive Hard Work**

Teams that are motivated often work long hours. However, in a failing project, the working of long hours is not voluntary and, indeed, becomes expected and the norm. In general, a team working more than 60 hours a week for a sustained period is in serious trouble.

- **High Staff Turnover**

Many people will respond to the challenges offered by a poorly-managed project with energy and enthusiasm. However, the impact of sustained and unnecessary pressure over a sustained period on personal standards and private lives results in many of the best people [i.e. those with other employment options or life choices] leaving the project.

- **Aggressive And Defensive Behavior**

In projects that are terminally-ill, any attempt by outsiders [managers, consultants, internal audit and other project managers] is met by a combination of aggressive and defensive behaviors. The bunker mentality of the team and the group cognitive dissonance effectively

bonds the team into a delusion that the project will succeed and any indication by people outside the team that it may be in trouble is seen as a threat.

- **No Fun!**

While some theorists may dismiss this symptom as irrelevant, my experience is that well-run projects offer challenge, learning and enjoyment for team members. A well-managed project can stop and smell the roses. For example, regular team time-outs where planning, review and fun can be combined with team-building. Failing projects have no fun, a lot of challenge and a lot of bad learning. Simply, instead of fun and excitement, failing projects exhibit frustration and desperation.

4.7. Solutions for Investment Project Failure

About 20 percent projects fail while an additional 42 percent of projects are challenged where the reasons for failure are generally known and therefore preventable. Project failure can occur at any time during the project lifecycle but success only occurs at the end. Identifying failing projects early in the lifecycle is critical in helping organizations prevent cost overruns and potential misallocation of corporate resources.

In the case of investment project, the worldwide cost of project failure is increasing in an alarming rate. Too often organizations will continue to fund failing projects without considering the implications of the sunk and opportunity costs.

They continue to waste time, money, and resources on projects that may no longer add value for the organization. They also fail to understand that cancelling a project does not imply failure if a better opportunity presents itself or if the project resulted in a valuable learning experience. Projects can also function as an option in which an organization makes an initial investment, and subsequently increases that investment as it learns more about the project and resolves risks and uncertainties.

What can an organization do to identify the warning signs of project failure? Once they have identified these symptoms of failure, how can they correct the errors and move towards success? And, how do they know when to cancel or suspend a project? The sooner they can identify the signs, corresponding causes of failure and corrective actions, the less costly it will be to your organization.

Through my study I have developed some solutions to explore answers to the questions above. These solutions are designed to highlight the symptoms that executives and project sponsors should watch out for and recommendations for corrective actions. While many of the causes of failure and symptoms identified may occur in more than just one stage, my discussion presents those that are most common at each stage.

- ***Initiating***

Projects begin in the Initiation stage where business needs and requirements are identified. During the Initiation stage the "Why" question is answered about the project, whether it is to improve top-line by investing in future growth or improve the bottom-line by improving operations and cutting costs. The business requirements identified should be both discrete and measurable with clearly defined acceptance criteria. The business case should clearly demonstrate the benefits and values of the project and should help to align the goals, objectives and requirements of the project with the overall strategy of the organization.

Therefore projects can fail in the Initiation stage because there is little or no real business need, the business goals are unclear and do not align to the overall corporate objectives, acceptance criteria is unclear, or there is a lack of support from key executives, stakeholders, or business owners.

- ***Planning***

Projects often fail in the Planning stage because of poor project preparation, inadequate design requirements, improper project approach and methodology and because no change control process is in place. Poor project planning results from planning resources lacking experience and knowledge.

Once the purpose of a project is confirmed and stakeholders and executives are aligned on that purpose, it can move to planning the project. During the Planning stage it should answer the "How" questions of execution. This includes determining the approach and methodology to deliver the desired output, creating a detailed project plan and schedule, and finalizing the project resources based on the skills and experience needed for the project.

- ***Stakeholders Communication***

An example of poor communication includes stakeholders, executives, and project members not communicating effectively and often. This implies the organization's ability to respond to changes in business priorities and focus, competitive market conditions, laws and regulations, technology shifts and unanticipated costs will be hindered. Such changes may require immediate action and a breakdown in communication will delay any response to change. Communication must be open, honest, and periodic to allow the organization to react quickly and receive decisions in a timely and effective manner. If functional departments work as silos rather than as interdependent teams, information and knowledge sharing as well as collaboration will cease to exit.

It is essential to maintain a constant and construction dialogue between the team and the project leader, but also with the other actors involved. This improves teamwork and allows everyone to be informed of the project's evolution in real time.

Fostering communication and exchange makes a team more productive, builds trust among members, and a sense of loyalty. Build a climate of trust by listening to a team. Follow-up meetings and collaborative project management software ensure good communication within the team.

- ***Executing***

Once the project plan is solidified and approval and agreement from executives, stakeholders, and the project team is received, it can begin executing. The primary objective in this stage is to coordinate the resources and execute the plan.

Project failure in the execution stage is a result of weak project management, lack of resources with the correct skills, and a lack of change, risk mitigation, financial, performance, and quality management. Additionally, project failure can be exacerbated by executives failing to suspend or cancel projects that have minimal chance of any success. Continuing to pursue projects that add little value results in time and money that can be used better on other projects or initiatives. Changes in the business environment, market conditions, competition, and technology could cause the suspension or cancellation of a project if the cost and benefits have shifted dramatically.

- ***Monitoring and Controlling***

The Monitoring and Controlling stage consists of observing and measuring the project performance during execution and identifying any variances from the project plan. Potential problems must be identified and corrective action must be performed.

Project failure in the Monitoring and Controlling stage is a result of a lack of controls (i.e. Earned Value or Burn down) and poor management in change, risk, finance, performance, and quality. Additionally, projects fail due to a lack of Quality Assurance and Quality Control.

- ***Closing***

Closing a project includes evaluating project deliverables and addressing goals and objectives achieved. Once a project has been completed or canceled, it is beneficial to document best practices and lessons learned for use in future projects. Although spotting warning signs this late in the project will not yield the same benefit you can expect in earlier stages of the project lifecycle, it fosters an environment of continuous improvement in the organization.

Projects falter in the closing stage as a result of deliverables failing to meet the business requirements and the organization's inability to adapt to changes in the business environment. Organizations may either hide excess work or mark projects finished prematurely. Even if the deliverables meet the business need and requirements, failure can still occur as a result of the organization failing to realize the desired benefits of the project. Additionally, failure can be attributed to not capturing best practices and lessons learned and failing to utilize them in future projects.

To sum up these solutions help executives understand and recognize the warning signs or symptoms of failing projects early and how it can prevent project failure. The warning signs or symptoms of failure are intended to not only help the executives and stakeholders improve project success but also to identify the projects that should be cancelled or suspended because alternative opportunities may yield more value for the organization. Why waste the organization's time and money on projects that are likely to fail? Regardless of which lifecycle stage the project is in, knowing and paying attention to warning signs of failure increases the probability of project success.

CHAPTER FIVE

5. SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary of the Findings

As has been stated in chapter one that the broad objective of this study was to assess and identify the major factors and cause of project failure. Further, the following specific questions were formulated to meet the general objective of the research:

A. Project specific related cause of project failure

In relation to respondents' view, the survey result shows that the project specific related causes of project failure are ranked as follows from the analysis. These are management problem, poor implementation, technical failure, market and marketing problem, financial insolvency of the promoter, quality of man power failure, missing objectives and poor governance. The document analysis report result also confirms that management problem, market and marketing problems and delay in project implementation are the major project specific related cause of project failure.

And also an in-depth interview conducted with senior credit officers conform that market problem, manpower quality problem; delay in project implementation causes a project to fail.

B. Credit management related causes of project failure

In relation to respondents' view, the survey result shows that credit management related causes of project failure are ranked based on respondents' agreement as follows: Follow up level or providing technical advice, appraisals of project using current price, over estimation of return from project and project planning capacity of the financers are major causes a project to fail.

The document analysis report result also shows that lack of strict follow-up of financed projects by the credit performers, poor credit analysis made by the bank such as Lack of proper market and project viability study made by the bank, Over estimation of cash flow or revenue from the project during appraisal and absence of reliable price, market and cost of

production data for project planning purpose. Moreover, from credit management related factors Poor follow up function or activities in the bank advice given by the bank, Improper credit appraisal (analysis) made by the bank are supported by interviewee as if it can cause a project to fail.

C. Macro-environment related causes of project failure

Continuous rise of product price, raw materials price and wages, sudden change in economic policies are strongly supported both in survey and in depth interview.

D. Socio-political related causes of project failure

The Problems of corruption and related problems and intervention of political leaders on project has been supported both in survey and interview result whereas government official's perception towards the project has got only support from survey result.

5.2. Conclusion

The objective of this research was to asses and identify the causes of investment project failure financed by development bank of Ethiopia in general and specifically factors in connection with project, credit management related factors, and macro environment related factors and socio political environment factors. To achieve this objective, the study used mixed research approach and more specifically survey and an in-depth interview. In addition, the study uses secondary sources of information. The cause of project failure financed by development bank of Ethiopia are factors in connection with project specific, factors in connection with credit management, factors in connection with macro environment related factors and factors in connection socio political environments.

In connection with project specific factor Management problem, poor implementation, market and marketing problem, quality of manpower failure are the major causes. It is also concluded that the following are among the major bank or credit management related cause of project failure: follow up level or providing technical advice, appraisals of project proposals using current price rather than long term money value, project planning capacity of the financers are the major causes of a financed project to fail. Factors in connection with macro environment, continuous rise of product price, raw materials price and wages, sudden change in economic policies are reasons for project failure. Factors in connection with socio-political environments it has been concluded that the Problems of corruption and related

problems and intervention of political leaders on project is an identified cause for project failure.

5.3. Recommendation

Aligned with the above conclusion, the researcher proposes the following corrective measures that should be considered by concerned stake holders in order to reduce project failure regarding DBE financed projects.

- As far as marketing problem is concerned, the bank need to be involved in finding of market destination for the products of the projects in addition advising the promoter by assigning operators in credit process that are well trained and experienced in marketing or establishing marketing advisor team. The research wing of DBE, therefore, has to scale-up the market studying method of commodities from traditional gap analysis to standard market research in order to build up the knowledge of operators in credit processing units. In addition to this, DBE has to arrange training, exposure visit and experience sharing programs to local project managers/owners to improve their marketing knowledge.
- In order to help projects to be implemented as per the stated schedule, the Bank has to conduct strict project implementation follow-up in order to verify whether the implementation of the project is conducted as per the schedule which is stated in the Banks appraisal document. Immediate & appropriate actions should be taken on the identified problems which hinder the project from being implemented on and or before the stated schedule.
- Regarding manpower problem of projects, the Bank has to enforce the project owners to recruit as per stipulated number, experience and knowledge requirements of manpower plan in appraisal documents since the project working capital requirement is determined considering the salary of these employees.
- With respect to the follow-up activity of the Bank, the Bank has to give intensive training to the operators to fill the skill gap in addition to assigning the required human resource on merit base. Follow-up reports have to be conducted with a group of multidisciplinary experts rather than on an individual basis so as to achieve the purpose for which the follow-up report is designed to meet. The follow-up reports should have been made critically. The concerned management of the Bank has to take immediate action as per the recommendation of the follow-up report. Moreover, the

performance evaluating unit of the Bank has to check the depth of the follow-up report prepared by operating units by going one step forward and has to take appropriate measure rather than collecting simply coverage number.

- Upon the intervention of political leaders on projects, the bank as well the project promoter should create awareness upon the contributions of the project to the community.
- Given that corruption and related problems is the major socio political cause of project failure, it is surprising that little has been researched about it, hence, the need for further investigation into the phenomenon. This can be achieved by exploring how corruption affects project failure financed by the bank and the cost associated with this.

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APPENDIX

Saint Mary's University

School of Graduate Studies

Program of MBA in Accounting and Finance

This survey is going to be undertaken by a student of Saint Mary University, School of graduate studies in the Department of Accounting and Finance as a partial fulfillment for the award of MBA in Accounting and Finance. This questionnaire is designed to obtain information on Cause of project failure financed by development bank of Ethiopia.

The information collected is purely for academic purpose and will be kept confidential. And your personal information will never be linked with your responses. Hence, you are kindly requested to fill the questionnaire and provide your opinion as truthfully as you can.

PART I: General Information/Personal Data Respondent's Background

Pleases tick and fill in the blanks if you select others.

1.Sex

Male☐ Female☐

2. Educational Qualification

Below BA/BSC☐ BA/BSC degree☐

MA/ MSC☐ Above MA/PhD☐

3. State respondent position in organizations/company. In which position you are currently working?

I. Respondents from DBE

Appraisal team member☐ Loan review team member ☐Due diligence team member ☐Loan approval team member☐ Loan recovery team member☐

II. Respondents out of DBE

Promoter ☐Manager of the project being financed ☐Local government officials ☐

4. State the number of year respondent has experienced in the industry/Bank /project/office. For how long have you been working in the Industry/Bank/ project/office?

1 to 5 years☐5 to 10 years☐11- to 15 years☐16 and above☐

Please tick and fill in the blanks if you select others. Each scale represents the following rating: (5) Strongly Agree☐ (4) Agree☐ (3) Neutral☐ (2) Disagree☐ (1) Strongly Disagree☐

Section B	**No.**	**Causes of Failure**	**1**	**2**	**3**	**4**	**5**
Project Specific	**1**	Poor implementation					
	2	Management problem					
	3	Poor governance					
	4	Size of the project					
	5	Technical failure					
	6	Market and marketing problem					
	7	Quality of manpower failure					
	8	Missing of objective					
	9	Losses because of uninsured items damage					
	10	Financial insolvency of the promoter					
	11	Absence of change control system					

Section C	**No.**	**Causes of Failure**	**1**	**2**	**3**	**4**	**5**
Project Specific	**1**	Over appraisals of collateral					
	2	Project planning capacities of the financers					
	3	Follow-up level/providing technical advice					
	4	Over estimation of returns from the project					
	5	Appraisal of projects proposal using current price rather long term monetary value					
Section D			**1**	**2**	**3**	**4**	**5**
		Section D/I Macro-Economic Environment					
	1	Change in economic policies					
	2	The mismatch and change in exchange rate					
	3	Increases in energy prices/electricity/diesel/ oil gas					
	4	The continuous rise of price of product, raw materials and wage					
		Section D/II Sociopolitical Environment					
	1	Literacy level					
	2	Religion diversity					
	3	Jurisdiction system					
	4	Government officials' perception					
	5	The interventions of political leaders on projects					
	6	The problem of corruption and related cases					

Semi structured interview guide line: This is designed to acquire more additional information and triangulate the result obtained from questionnaire and **y**our answer will be treated confidentially. The findings of the study will be used for academic purposes.

1.What are project specific related factors for project failure of projects financed by DBE? Do the following factors contribute for project failure? How?

1.Poor implementation/Time overrun;

2. Management problem;

3.Poor governance;

4.Size of the project;

5.Technical failure;

6.Market and marketing problem;

7.Quality of manpower;

8.Missing of objective

9.Losses because of uninsured items damage;

10.Financial insolvency of the promoter

11.Absence of change control system

Add if you have additional _____

2.What are Credit Management related factors for project failure for projects financed by DBE?

Do the following factors contribute for project failure? How?

1.Over appraisals of collateral;

2.Project planning capacities of the financers;

3.Follow-up level/providing technical advice;

4.Over estimation of returns from the project;

5.Appraisal of project proposals using current

6.Price rather than long-term money value;

Add if you have additional _____

What are Macro-economic Environments and Sociopolitical related factors for project failure for projects financed by DBE? Do the following factors contribute for project failure? How?

Thank you for your cooperation