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PROJECT LOAN PORTFOLIO MONITORING AND FOLLOW-UP PRACTICE: THE CASE OF AWASH BANK

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Project Loan Portfolio Monitoring and Follow-up Practice: The Case of Awash Bank

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Declaration

I, Geda Abera Fana, hereby declare that this study entitled "Project Loan Portfolio Monitoring and Follow-up Practice: The Case of Awash Bank" is my original work and has not been presented to any other examination body and that all the materials used for the project have been duly acknowledged.

No production of this study shall be done without the consent of the author or that of Addis Ababa University.

Geda Abera Fana

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Signature and Date

Certification

This is to certify that Geda Abera has completed his project work entitled "Project Loan Portfolio Monitoring and Follow-up Practice: The Case of Awash Bank". His project is appropriate to be submitted as partial fulfillment of the requirements for the award of a Master of Arts Degree in Project Management.

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Signature and Date

Approval

This is to Certify that the thesis prepared by Geda Abera, entitled: "Project Loan Portfolio Monitoring and Follow-up Practice: The Case of Awash Bank" submitted in partial fulfillment of the requirements for the Master of Arts in Project Management complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Acronyms

CAR	Capital Adequacy Ratio
CBE	Commercial Bank of Ethiopia
CLA	Cost Per Loan Asset
CRM	Credit Risk Management
DR	Default Rate
ETB	Ethiopian Birr
FY	Fiscal Year
GLS	Generalized Least Square
IFB	Interest-Free Banking
IOM	International Organization for Migration
M&E	Monitoring and Evaluation
NBE	National Bank of Ethiopia
NPL	Non-Performing Loan
PRLRP	Project Rehabilitation and Loan Recovery Process
ROA	Return On Asset
SPSS	Statistical Package for Social Sciences

Abstract

Banks generally play a crucial role in the economic growth of a nation and bank loans are one of the most common finance sources for projects. Project loans are always accompanied by risk; and with an increase in the amount of project loans, the risks associated with it also increases. The main aim of this study was to assess the investment project loan monitoring and follow-up practice of Awash Bank. Additionally, the credit appraisal practice of the Bank and factors that lead to loan default were analyzed in the study. The study used both primary and secondary data collection methods. The primary data was collected using questionnaires and interview while secondary data was derived from the Bank's annual reports and other relevant documents. The target population for the study was technical employees of the Bank who work in the credit appraisal and credit portfolio monitoring and follow-up function. For this study 37 respondents were identified and completed response was gathered from 28 of them. To analyze the quantitative data, descriptive analysis was employed in the study using the Statistical Package for Social Sciences (SPSS) version 28. The findings show that the project loan monitoring and follow-up is related with loan performance and the bank has a periodic and standardized monitoring and follow up. The Study recommends that the Bank should evaluate borrowers project monitoring skill, develop the technical capacity of the Bank's staff and limit management intervention in credit appraisal and approval.

Key words: *Project Monitoring, Project Follow-up, Credit Appraisal*

Chapter One
1. Introduction

This section provides a brief background of the study and introduces the initiation for the research and the beneficiaries of the study. It outlines the problem statement, research questions, objectives of the study and its significance. The chapter also defines the scope of the study and limitations of the study.

1.1. Background of the Study

Banks play a crucial role in the economic growth of a nation (Mekango, 2021). Among the many contributions bank have to the economy, one is the efficient utilization of financial resources. From capital formation to availing credit for borrowers, banks play a significant role in the successful completion and implementation of projects. They are institutions through which money is mobilized from those who have excess fund to those who need it to finance their investment projects.

According to Sahle (2018), projects are mainly financed from two sources – Equity and Debt. The loan structure which is aimed at raising fund for long-term projects that primarily relies on the project's future cash flow for repayment, with the project's assets, rights, and interests held as secondary security or collateral is called project financing. Bank loans are one of the most common finance sources for projects.

By the end of FY 2020/21, the number of banks operating in Ethiopia were 19 (National Bank of Ethiopia, 2021). The latest data on NBE’s website, however, indicates that there are currently 23 banks operating in the country with four new banks (Goh Betoch Bank, Hijra Bank, Siinqee Bank and Shabelle Bank) commencing operation in the first nine months of the current fiscal year (FY 2021/22).

Awash Bank is one of the pioneers among the private banks in the Ethiopian banking industry and one of the largest private banks in Ethiopia. It was established in 1995 with a paid capital ETB of 24.2 million. As of June 30, 2021, Awash Bank had over 4,000 shareholders, a subscribed capital of ETB 12 billion and a paid-up capital of ETB 8.19 billion. By the close of the last fiscal year (FY 2020/21), Awash Bank had over 566 Branches across the country.

As is the case with other banks in the country, one of the services provided by Awash Bank is providing loan to its customers. In FY 2020/21, Awash Bank has provided ETB 87.5 billion in loans by registering a 51.8% growth from what it provided in the previous period.

Loans are associated with credit risk, which is the possibility of the borrowers not to meet their obligations. This is to mean that some borrowers fail to pay back the loan they take and the accruing interest back to the lending institution (the bank in this case) as per the terms agreed in their contractual agreement, which also known as non-performing loan. Poor credit portfolio is likely to affect the performance and effectiveness of the bank (Tefera, 2020). Hence, banks need to monitor their asset and credit portfolio regularly before they turn into non-performing loans.

Monitoring and follow-up are important tools to track progress and facilitate decision making (Kabeyi, 2019). Accordingly, this study attempts to assess the monitoring and follow-up practices of Awash Bank used to evaluate the performance of projects it finances.

1.2. Statement of the Problem

Almost all businesses have risks associated with them; the same applies to the Banking businesses. According to Mekonnen (2020), when compared to other types of business, the banking business is relatively exposed to more significant risks, especially in this ever-changing competitive environment. Competition affects banks' loan portfolios in terms of bad loan screening procedures and relaxing borrowing criteria there by affecting increasing their credit risk (Manove et al., 2001 cited in Berhe, 2020).

Bank loans are always accompanied by risk. With increase in the amount of loans, the risks associated with recouping it, i.e., the credit risk, increases posing danger to the financing bank (Tefera, 2020). The amount of loan provided by Awash Bank has been continuously increasing. The Bank's average annual growth rate in loan amount for the last five fiscal years (FY 2016/17 to FY 2020/21) was about 41.8%, with FY 2020/21 registering the highest growth rate of 52.8%. In contrast, the growth rate registered at industry level 21.5%.

One of the biggest credit risks taken by banks is Non-Performing Loan (NPL). High amount of NPLs represents that there is high credit risk and this leads to high market risks and liquidity risk for banks (Mekonnen, 2020). Besides the risk NPL pose to banks, Daumont .et. al (2004) cited in Mekonnen (2020) found that the accumulation of non-performing assets also has an impact on the national economy as well. High amount of non-performing loan could be attributable to economic downturns and macroeconomic volatility, terms of trade deterioration, high interest rates, excessive reliance on overly high-priced interbank borrowings, insider lending and moral hazard.

Given the significant risks associated with it, non-performing loan is a top agenda for the government and the National Bank of Ethiopia, which is the governing body of banks in Ethiopia. Taking this in o account, NBE has set a 5% ceiling for non-performing loans rate (Bezeye, 2020).

As indicated in the Background of the Study above, project financing in the form of bank loan depends on the economic and financial performance of the project to be financed. In other words, banks' ability to regain the loan they have advanced to finance the project and their interest highly depend on the attainment and substantially of the performance of the project. As such, banks need to put an effective and efficient project monitoring and follow-up practice in place to evaluate the projects they have financed.

Banks strive strives to mitigate the risk associated with the project loans. Unless the loan portfolios of banks are managed properly, loan disbursements will be made to inappropriate borrowers who cannot meet their obligations. On the other hand, prudent loan portfolio management enables banks to select the right borrower by eliminating or reducing the dangers that would follow (Tefera, 2020).

According to the latest financial report of Awash Bank for fiscal year 2020/21, the Bank's Non-Performing Loan by the close of the fiscal year was 1.9% which is far below NBE's 5% ceiling. The Bank credits this to its prudent lending practices. This figure was 1.7% in the fiscal year before (FY 2019/20), 1.1% in FY 2018/19 and 1% in FY 2017/18. Although it is marginal, there has been a relative increase in the Bank's NPLs in the last four fiscal years. One of the gaps in studies conducted on loan portfolio monitoring and non-performing loans is that most of them focus towards assessing the causes of high NPLs. It is however, equally important to learn from good practices and identify the mechanisms that are in place by banks which contribute to the low NPLs.

Findings of empirical studies by Arega, et al (2016) cited in Regassa (2018) show that there are bank specific factors which contributed to the prevalence of NPLs. These bank specific factors include weak credit risk management, easily admitted borrowers (poor assessment of borrower's creditworthiness), excessive risk appetite by the bank, compromised integrity in approving credit, rapid credit growth, poorly negotiated and lenient credit terms. On the other hand, the borrower specific factors that lead to increase in NPLs were credit culture of customers, lack of knowledge and related experience of borrower for the proposed business, willful default, loan diversion, lack of commitment on the side of the promoter and project management problem were the factors have. The same study highlighted that one of the bank specific factors for increase in NPLs was poor credit monitoring by banks.

The growth in Awash Bank's NPLs, as presented above, added with the increase in the amount of loan advanced shows that there is the need to establish a strong monitoring and follow-up practice on loans. The aim of Awash Bank and the regulator, National Bank of Ethiopia, is to decrease the rate of NPLs but the NPLs of Awash Bank has been increasing in recent year. Given the risk NPLs pose on the bank as well as the nation it is important to asses factors that are contributing to the attainment or failure of project goals of projects the bank finances. This study mainly assesses the project loan monitoring and follow up practice of Awash Bank.

Many studies have been conducted on the causes/determinants of NPLs. However, most studies were conducted by taking state owned banks in to consideration, especially the Development Bank of Ethiopia. What is more, most similar studies assess the determinants of NPLs and the monitoring practices in place from the borrowers' or the projects perspective and they were conducted from financial and business administration point of view and gave little attention to project management perspective.

In light of the above-mentioned issues and taking the seriousness of credit portfolio management, this study assesses monitoring and follow-up practices in place from the Awash Bank's perspective. The study also looks in to the factors that are contributing to the credit appraisal practice of Awash Bank and factors that are leading to loan default.

1.3. Research Questions

Base on the above problem statement and research gap, this study attempts to answer the following questions:

a) What appraisal practices are in place to provide loan?
b) What is the project loans Monitoring and Follow-up framework of Awash Bank?
c) What is the impact of project loan appraisal practice of the Bank?

1.4. Research Objectives

The general objective of this study is to assess the credit monitoring and follow-up practice of Awash Bank.

The specific objectives of the study are:

- To assess and identify the gaps in the project credit monitoring and follow-up practices of Awash Bank;
- To assess the adequacy of Monitoring and Follow-up framework in investment project loans; and
- To assess the credit appraisal system of the Bank.

1.5. Significance of the Study

As indicated in the statement of problem, there are many researches that assessed the determinants of NPLs, especially in the case of state-owned banks. However, there are limited researches in the case of private banks, particularly Awash Bank. What is more, in the literatures reviewed, researches conducted from the Bank's monitoring and evaluation practice perspective have not been found. Most studies are conducted from the project owners or beneficiaries' point of view. This study, therefore, tries to fill this gap by assessing the project credit monitoring and follow-up practice of Awash Bank.

Additional significances of the study emanate from its objectives, which are:

- It could benefit Awash Bank by providing insight in its gaps and strengths with respect to project credit monitoring and follow-up practices by providing a better understanding to concerned personnel and units of the Bank on effective project credit monitoring and follow-up practices;
- It will inform interested readers on the project credit monitoring and follow-up practices of Awash Bank; and
- This study could also serve as a stepping stone for further research in the area of project credit monitoring and follow-up practice.

1.6. Scope of the Study

The focus of this study was to assess the project loan monitoring and follow-up practices of Awash Bank. Credit appraisal practices of the bank and the impact of project loan monitoring and follow-up on the loan performance of the bank were also assessed in this study.

The study is delimited conceptually, geographically, and methodologically. Conceptually, the study focuses on bank specific monitoring and follow-up practices and does not look in to how the project is monitored by the project owners or the customer. It also focuses on the conventional banking, excluding the practice in IFB loan monitoring and follow-up practices.

The geographical scope of the study focused on the credit appraisal and portfolio monitoring units at Awash Bank’s headquarters.

Besides the aforementioned delimitations, the study is not limited with respect to sector and loan amount.

1.7. Potential Limitations of the Study

This study was conducted only by focusing on the Bank’s project loan monitoring and follow-up practices. It did not include the opinions of the borrowers that have been financed in the form of project loan. Another limitation and challenge was that there were no adequate literatures around the monitoring and follow-up of projects from banks’ perspective.

1.8. Organization of the Study

The study consists of five chapters. The first chapter, which is an introductory section, mainly consist the background of the study, the problem statement, research questions, objectives of the study, scope, and significance of the study. The second chapter provides a detailed theoretical and empirical literature review. In the third chapter, data collection and analysis methods are given. The fourth chapter presents the main findings of the study and interprets the results. Finally, on the fifth chapter, major findings of the study and conclusions are given followed by recommendations forwarded based on the findings.

1.9. Definition of Key Terms

“Credit” or “**Loan”** means any financial assets of a development finance institution arising from a direct or indirect advance of funds (i.e., unplanned over drawings, participation in loan syndication, the purchase of loans from another lender, etc.) or commitment to advance funds by a development finance institution to a person that are conditioned on the obligation of the person to repay the funds, either on a specified date or dates or on demand, usually with interest. The term includes a contractual obligation of a development finance institution to advance funds to or on behalf of a person, claim evidenced by a lease financing transaction in which the development finance institution is the lessor, and line of credit to be funded by the development finance institutions on behalf of a person.

“Credit Risk” refers to the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations.

“Non-performing loans” means loans whose credit quality has deteriorated such that full collection of principal and/or interest in accordance with the contractual repayment terms of the loan or advance is in question.

“Project” can be considered to be any series of activities and tasks that have specific objective to be completed within certain specifications, defined start and end dates and consumes human and non-human resources.

“Project financing” is a loan structure that relies primarily on the project's cash flow for repayment, with the project's assets, rights, and interests held as secondary collateral.

Chapter Two
2. Literature Review

Different studies have been conducted by different people and organizations to assess the role project monitoring and follow-up has at national, regional and international levels. There are also few studies conducted specifically on project loan monitoring and follow-up. Under this section of the study, the findings of existing literature are given through reviewing past studies.

This section has four main parts – the theoretical framework part, the empirical evidence, summary of existing literatures and conceptual framework. In the theoretical framework section, basic definitions and concepts of project is given followed by the evolution of project management and monitoring, the need for project monitoring and tools of project monitoring by associating them project loan. The principles of effective loan portfolio are also reviewed in this section.

In the second sub-section, empirical evidences are reviewed while the third sub-section presents the summary of literatures. Finally, the conceptual framework for the study is given.

2.1. Theoretical Framework

2.1.1. Meaning and Nature of Project, Project Management, and Project Monitoring

The Project Management Institute defines project as a temporary endeavor undertaken to create a unique product, service, or result. The temporary nature of projects indicates a beginning and an end to the project work or a phase of the project work. Projects can stand alone or be part of a program or portfolio (Project Management Institute, 2021). From this definition we can understand that project is a temporary and usually a one-time activity aimed at bringing a progressive lasting or long-term change. The above definition also indicates some of the main characteristics of a project which are: a project is temporary, it has unique deliverables, it is usually new in kind, it is complex, requires resources and works in a limited time and budget constraint.

Project Management can be defined by combining the definition 'project' with that of 'management'. While a project can be defined as given above, management on the other hand can be simply defined as the process of administering and controlling the affairs of an organization. Be merging these definitions, project management can be de defined as applying management skills and techniques in a project set up. According to the Project Management Institute (2021), project management is the application of knowledge, skills, tools, and techniques to project activities to meet project requirements. Project management refers to guiding the project work to deliver the intended outcomes. Project teams can achieve the outcomes using a broad range of approaches (e.g., predictive, hybrid, and adaptive).

Although sometimes used interchangeably by few, Monitoring and Evaluation are two different concepts. The role they play in project delivery and their function is different. According to Tengan and Aigbavboa (2018), monitoring gives information on the progress of work at any given time (and overtime) relative to the planned or desired targets and outcomes, which is descriptive in intent. Evaluation, on the other hand, gives evidence of the extent to which targets and outcomes are being achieved and it mainly seeks to address issues of causality. Despite their distinct meanings and role in the project life cycle, these monitoring and evaluation are still complementary to one another and mutually supportive processes (Umhlaba Development Services, 2017). Based on their review of literatures, Tengan and Aigbavboa gave the major differences between monitoring and evaluation by asking critical questions to explain the major differences between the two management functions as depicted below in Table 1.

Table 1: Differences between Monitoring and Evaluation

Question	Monitoring	Evaluation
When is it done?	Continuously-throughout the life of the project/program	Occasionally-before implementation, Mid-term, at the end or beyond the project/program period
What is measured?	Efficiency-use of inputs, activities, outputs, assumptions	Effectiveness, longer-term impact and sustainability- achievement of purpose and goal and unplanned change
Who is involved?	Staff within the agency (internal staff)	In most cases, external bodies or agencies are engaged in the evaluation
Sources of Information	Internal documents, e.g. monthly or quarterly reports, work and travel logs, minutes of meetings	Internal and external documents, e.g. consultant's reports, annual reports, national statistics
Who uses the results?	Managers and project/program staff	Managers, staff, funding agency (e.g. CDC) beneficiaries, other agencies

How are results used?	To make minor changes	To make major changes in policy, strategy and future work

Source: Tengan and Aigbavboa (2018)

In terms of definition, monitoring is a continuing function that aims primarily to provide the management and main stakeholders of an ongoing intervention with early indications of progress, or lack thereof, in the achievement of results (UNDP, 2002).

In its Monitoring and Evaluation guidelines, the International Organization for Migration indicated that monitoring could often be confused with reporting. While reporting is only one component of monitoring and it only refers to the compilation, transfer and distribution of information, monitoring is a wider concept that focuses on the collection and analysis of information/data, on a regular basis. Hence, monitoring encompasses the planning, designing, selecting of methods and systematic gathering and analysis of the content, while reporting summarizes that content with the purpose of delivering the relevant information (IOM, 2021). Based on this distinction of monitoring and reporting, IOM defines monitoring as "an established practice of internal oversight that provides management with an early indication of progress, or lack thereof, in the achievement of results, in both operational and financial activities".

Monitoring is a continuous function that aims at providing management and stakeholders with indications of progress or lack of progress in realization of project or program results (Kabeyi, 2019). According to the Pan American Health Organization (1999) and Umhlaba Development Services (2017), monitoring is an integral part of day-to-day management tool for tracking progress of ongoing projects. The various definitions of monitoring show that it is an ongoing process mainly based on the set targets and planned activities in the course of the planning stage of work (Kihuha, 2018).

2.1.2. Evolution of Project Management and Monitoring

Project management has evolved over the years and is still evolving today. Project Management as a term was coined in the 1950s. By that time, its emphasis was on activity scheduling, budgeting and control. In 1980s, its emphasis remained the same but with introduction of project information systems that ran on mainframe computers. The 1990's was a period where the term 'project management' was redefined by wide range of fields and grew from the stage of non-functional component of the management science, to the stage of strategic component of organizational development, and become an independent discipline and profession (Kabeyi, 2019). According to Abbasi & Jaafari (2018), project management has shown profound changes as an academic field both from a theoretical and application perspective. This was demonstrated by the growing number of project management related academic papers in peer reviewed academic journals and the growing membership in project management related professional bodies.

According to Kabeyi (2019), one of the challenges facing monitoring and evaluation is that they mean different things to different people, and that they are disciplines that have been in a state of evolution. In the early days of project management practice, the focus was on the planning and execution of individual projects. Through time, project monitoring and evaluation has grown significantly and today it is part and parcel of the project cycle from project initiation to completion and beyond. The evolution of project monitoring has been influenced by infrastructural developments in transport and communication, advances and application of management science, the invention and increased use of the personal computer and related software and continuous influence and application of modern technologies in all functions of project management. Additionally, in todays' world, concerns over sustainability of projects and programs are the main drivers for monitoring and evaluation and hence the need to inbuilt sustainability in all aspects of project management (Kabeyi, 2019).

2.1.3. The Importance of Project Monitoring

In project management two of the most important processes within project management cycle, i.e., project monitoring and evaluation, are usually approached as side-activities by project managers and project management teams, whose unfortunate result is project or program failure. The truth is, however, they are key components of any project on their own and many scholars agree with their contribution to project success. The role of monitoring and evaluation in project management has been demonstrated in the foregone which suggested that the monitoring and controlling process of project management is the only process that begins and ends in the project lifecycle (Tengan & Aigbavboa, 2018). Monitoring and evaluation help improve performance and results (Kabeyi, 2019). It is a process with the main aim of helping improve project Performance and achieve expected or planned results. The objective of monitoring and evaluation is to improve current and future management of inputs, outputs, outcomes and impact in projects and programs being executed by assessing the progress, performance and results of projects and programs, or even organizations (United Nations Development Programme Evaluation Office, 2002).

According to Kumar and Bansal (2010), the purpose of Project Monitoring and Control is to provide an understanding of the project's progress so that appropriate corrective actions can be taken when the project's performance deviates significantly from the project plan. Monitoring and evaluation activities improve the communication between different stakeholders. This affords stakeholders better understanding of implementation issues regarding all aspects of the project (Tengan & Aigbavboa, 2018)

The basic objective of project monitoring is to compare actual performance with plans and to measure actual results against expected results. It is an integral part of project execution and in simple terms, it is a way of making efficient project follow-up to provide systematic, consistent and reliable information on project progress (Pan American Health Organization, 1999). Programs and projects with strong monitoring and evaluation components tend to stay on track. Additionally, problems are often detected earlier, which reduces the likelihood of having major cost overruns or time delays later (United Nations Development Programme, 2019).

Project monitoring aids in keeping the work on track, and can let the management know whether things are not running as expected in the course of undertaking the project (Kihuha, 2018). It offers the background for minimizing time along with cost overruns, while at the same time ensuring that the required standards of quality are attained in the implementation of the project. The activity of monitoring supports both the project managers and staff in understanding whether the projects are progressing as predetermined (Houston (2008) cited in Kihuha (2018)).

Monitoring is necessary, because it continuously generates the information needed to measure progress towards results throughout implementation and enables timely decision-making. Monitoring helps decision makers be anticipatory and proactive, rather than reactive, in situations that may become challenging to control. It can bring key elements of strategic foresight to IOM interventions (IOM, 2021).

The AnayaSENELWA International Limited, a consultancy firm that developed a Project Monitoring, Evaluation and reporting Manual for the Kenyan Treasury in 2021 identified and listed the main purposes of project monitoring and evaluation which include:

a) *Support project implementation with accurate, evidence-based reporting that informs management and decision-making to guide and improve project performance.*

b) *Contribute to organizational learning and knowledge sharing by reflecting upon lessons learnt.*
c) *Uphold accountability and compliance by demonstrating whether our work has been carried out as agreed and in compliance with established standards and with any other stakeholder requirements.*
d) *Provide opportunities for stakeholder feedback.*
e) *Promote and celebrate project work by highlighting accomplishments and achievements, building morale, and contributing to resource mobilization.*
f) *Strategic management in the provision of information to inform setting and adjustment of objectives and strategies.*
g) *Build the capacity, self-reliance, and confidence of stakeholders, especially beneficiaries, and implementing staff and partners to effectively initiate and implement development initiatives.*
h) *Check on conditions or situations of a target group and changes brought about by program or project activities, as well as on the continued relevance of the project.*
i) *Understand the synergetic relationships between program design and management, and M&E systems to determine the expected impact and objectives and how they will be achieved* (The AnayaSENELWA International Limited, 2021, pp. 82-83).

In the same manner, the International Federation of Red Cross and Red Crescent Societies (2007), indicated that good monitoring is an integral part of project management and listed some of the key reasons for monitoring, which are:

- Providing management, staff and other stakeholders with information on whether progress is being made towards achieving project/program objectives. In this regard, monitoring represents a continuous assessment of project/program implementation in relation to project/program plans, resources, infrastructure, and use of services by beneficiaries.
- Providing regular feedback to enhance the ongoing learning experience and to improve the planning process and effectiveness of interventions.
- Increasing project/program accountability with donors and other stakeholders
- Enabling managers and staff to identify and reinforce initial positive results, strengths and successes. Monitoring also alerts managers to actual and potential project/program weaknesses, problems and shortcomings before it is too late.

- Checking on conditions or situations of a target group, and changes brought about by project/program activities (International Federation of Red Cross and Red Crescent Societies, 2007).

2.1.4. Approaches and Tools to Project Monitoring

Gumz and Parth (2007) found that organizations usually select from four basic approaches to performance monitoring and that no matter which method is selected, the Project Manager has overall accountability for the project. The first option is **internal monitoring**. In this case, performance measurement and monitoring is the responsibility of those who are most closely involved in project implementation: the organization’s staff. Internal monitoring is essentially a form of continuous performance self-assessment where the project team has the capacity, and are given the responsibility, to undertake performance measurement and reporting. The second option is to **build an internal but independent group to monitor projects**. Organizations have to be committed to building and maintaining this group to use the approach successfully. One advantage of this method is that a body of knowledge can be built, which can be leveraged in the future. The third option is **external monitoring** where a consultant is contracted as an independent Project Monitor to track and report on performance. They may report to the project sponsor, a steering committee, a government body as a legislature, the project manager, or the prime lender. The architecture firm that performed monitoring services at King's Gait in Glasgow, Scotland for the Bank of Ireland is an example of this approach. The fourth and last option according to Gumz and Parth (2007), is **external support**. This option makes the project manager responsible for the performance measurement function, but provides support to build organizational capacity in this area. This performance advisor also monitors the validity and reliability of the performance information being reported. Canada's International Development Agency uses this approach on occasion.

Some monitoring staff often invest too much time and resources in gathering data which they frequently fail to interpret and present in a form that will convey the meaning of the progress made. This should be avoided if possible. Appropriate monitoring tools should be put in place and used accordingly (Otieno, undated). There are different project monitoring tools that could be utilized based on the nature of the project. The most common ones are Logical Framework (Logframe), Theory of Change, and Monitoring and Evaluation Plan.

2.1.5. Factors that Contribute to Successful Project Monitoring

Xu, Li and Mao (2006) conducted a study on bank loan monitoring model for real estate projects by considering the need to devote much effort to loan monitor. Accordingly, the researchers analyzed how banks in China monitor loans monitoring was analyzed by reviewing a series of bank loan monitoring policies, and the concrete operation process of bank monitoring to bank loan and their rationality by taking the case of Chongqing – Project A. This study concluded that, in order to improve the monitoring level of bank and to reduce risk, the banks should: (1) complying with the relevant regulations of regulator and execute operations strictly to strengthen the monitoring of loans; (2) taking full advantage of the credit register consulting system to control the credit support strictly to the real estate development companies; (3) establishing risk pre-alarm system to exclude and guard against investment risk ; (4) evaluating the qualification of real estate development company strictly, and not issuing loans to a company whose owned capital is less than qualification; (5) strengthen loan callback and the disposal of guaranties; and (6) knowing well about the rule of real estate development companies how to use their fund, and offer the loan according to project progress strictly, tracking and controlling how the loan is used, pay construction fee to the construction company according to the contract to solve the problem of defaulting.

2.1.6. Challenges in Project Monitoring

Monitoring and evaluation are challenged on many fronts. Tengan and Aigbavboa (2018) categorized and discussed challenges associated with monitoring and evaluation under three broad categories: technical level, organizational level, and project level challenges. Organizational level challenges were those challenges attributed to nature, and operation of the organization. The lack of M&E units within the organization was cited as a major challenge for monitoring and evaluation of projects. Without an M&E unit, planning responsibilities toward monitoring and evaluation of projects are rendered ineffective. The need to strengthen the planning and implementation of M&E for efficient project delivery is paramount. Weak institutional technical capacity in M&E was also identified to influence the performance of M&E significantly.

The second category of project monitoring challenges as identified by Tengan and Aigbavboa (2018) is Project-Based Challenges. The successful implementation of monitoring and evaluation at the project level is hinged on the effective planning for M&E at the management level. At the project level, limited financial resources affect the M&E

process negatively. The approaches adopted in collecting project information for decision making renders the quality of data collected poor and inadequate for management to base their decision on for future projects. Stockman (2011) cited in Tengan and Aigbavboa (2018) acknowledging the challenges in collecting and analyzing M&E data further reiterated the need for relevant information generated through effective data collection and analysis to sure good management judgement on M&E activities on the project. Communication during the M&E of projects is critical. Poor communication is further exacerbated with the insufficient information on project design as well as the inconsistency of project information; drawings, specifications, and bill of quantities available for the M&E.

The third category of challenges is Technical-Based Challenges. These are technical challenges rendering the ineffectiveness of monitoring and evaluation of projects are reviewed.

In the context of project loans, monitoring entails keeping track of the loan customers' activities in relation to the loan on regular basis to ensure that the terms and conditions of the facility are complied with as contained in the loan agreement. This includes on-sight and off-sight monitoring. It came up that mostly credit officers ignore on-sight monitoring which has to do with field visits to determine how customers are faring in their activities and their ability to repay loans promptly (Abebe F. , 2016). Inadequate resources such as under-staffing and logistics that aid effective monitoring, ineffective supervision by management and lack of access roads to customers' projects sites as the major challenges for most credit officer faces in their endeavor of making regular loan follow-up were observed as some specific challenges (Francis, 2009 cited in Abebe F. , 2016).

2.1.7. Loan Monitoring and Follow-up

Credit monitoring or follow-up means bank officers checks the borrower's behavior of turnover, the information regarding the profitability, liquidity, cash flow situation, level of security offered, insurance coverage of security and trend in sales in maintaining various ratios of the borrower to meet its timely obligation (Abebe, 2019).

Lending decisions are made on sound credit risk analysis/appraisal and assessment of credit worthiness of borrowers. But past records of satisfactory performance and integrity are no guarantee for future, though they serve as a useful guide to project the trend in performance. A loan granted on the basis of sound analysis/appraisal might go bad because the borrower may not meet his/her/its obligations per the terms and conditions of the loan contract. It is for this reason that proper follow-up and monitoring is essential (CBE (2009) et al. cited in Abebe F. (2016)).

The fact that monitoring should be a continuous activity is applicable when it comes to credit risk as well. Spuchľáková, Valašková, and Adamkoc (2015) indicated that continuous active monitoring and management of credit risk positions is an integral part of credit risk management activities. They further went on and categorized credit risk monitoring into two levels as (i) monitoring of credit risk at the level of the client and (ii) monitoring of credit risk at the level of the credit and bank portfolio. The first is at the level of individual trade operations, where there is a regular monitoring, when the bank monitors the fulfilment of the contract conditions, financial situation of the client, and also the macroeconomic conditions. To identify changes in the ability to repay the loans, the bank may set many identifiers, such as turnover, repayment discipline, profitability, liquidity. Regular monitoring and identification of the changes in the ability to pay is an important tool for risk management. In the moment of the deterioration of debtor, the bank may initiate steps to maximize the return of their claim, or to minimize the losses, for example the negotiation of the additional conditions, the use of hedging instrument, the restructuring of the debt, etc. The frequency of credit risk monitoring depends on the creditworthiness of the client. Clients with good rating has been monitoring one a year, clients with a worse rating have been monitoring quarterly or monthly.

In the second case, i.e., monitoring of credit risk at the level of the credit and bank portfolio, the credit portfolio is divided into four main segments: non-financial corporations, mortgages, consumer credits and the other credits. Structure of the credit portfolio is dependent on the type of the bank, i.e., whether the bank is universal or specialized. One of the basic rules of the credit risk management is the principle of diversification. The degree of diversification of the credit portfolio significantly related to the clients to who the bank is concentrated. If the bank provides a large amount of the credits to retail clients, mainly to households, the degree of diversification is higher than at the bank that provides credits to the large corporations. Status and basic trends of credit portfolio are expressed in terms of return of the credits, the cause of the subprime loans involve not only the ability but also the willingness of the borrower to repay the loan including interest. One of the methods of credit risk measurement is based on this principle, i.e., the willingness and ability to repay the credit and also on the behavior of individual components of the credit portfolio and uses the expected default rates. The expected default rates tell us what percentage of the credit will not be repaid whether due to inability or unwillingness of the client (Spuchľáková, Valašková, and Adamkoc, 2015).

According to the Office of the Comptroller of the Currency's Commercial Real Estate Lending Gudeline (2022), an established credit administration process that continually monitors each project's progress, costs, and loan disbursements is essential to effectively controlling commercial construction risk. Effective credit administration includes performing periodic physical inspections of the project and evaluating the work performed against project design and budget. According to the guideline, banks often retain an independent construction consulting firm if they do not have the necessary in-house engineering, architectural, and construction expertise to perform a physical inspection. Sound monitoring includes obtaining monthly reports of work completed, costs-to-date, costs-to-complete, construction deadlines, and loan funds remaining. Changes in construction plans should be reviewed by competent staff or a construction consulting firm and approved and documented by the bank and take-out lender, if any. A significant number of change orders could indicate poor planning or project design, or problems in construction, and should be tracked and reflected in the project's budget. It is important for banks to monitor economic factors that could affect the project's success upon completion. Because the development, construction, and lease-up of a commercial project can span several years, it is important to continually assess the project's marketability and whether demand will continue to exist when the project is completed (Office of the Comptroller f the Currency, 2022).

Monitoring involves, among others, frequent contact with borrowers, creating an environment that the bank can be seen as a solver of problems and trusted adviser; develop the culture of being supportive to borrowers whenever they are recognized to be in difficulties and are striving to deal with the situation; monitoring the flow of borrower's business through the bank's account; regular review of the borrower's reports as well as an on-site visit; updating borrowers credit files and periodically reviewing the borrowers rating assigned at the time the credit was granted (Donaldson, 1994 cited in Fantu, 2015).

Donaldson (undated) cited in Tadesse (2020) indicated that effective credit monitoring involves looking into various operations of the company including operations of the loan, checking whether the company is properly managed, and the environment in which the company is carrying out its business is satisfactory. Constant monitoring increases the chance that the company will respond to a bank's concern and provide information more willingly. A bank which always closely follows a company's standing can often point out danger or opportunities to the company, as well as quick agreement to request for credit. It thus establishes that monitoring is basically constructive, and not a panic reaction and carries more weight when it expresses concern (Tadesse, 2020).

Regular monitoring of loan quality, possibly with an early warning system capable of alerting regulatory authorities of potential bank stress, is essential to ensure a sound financial system and prevent systemic crises. (Agresti et al., 2008 cited in Tadesse, 2020). A proper credit monitoring/follow-up system will provide the basis for taking prompt corrective actions when warning signs point to deterioration in the financial health of the borrower. Examples of such warning signs include unauthorized drawings, arrears in capital and interest and deterioration in the borrower's operating environment. Financial institutions must have a system in place to formally review the status of the credit and the financial health of the borrower at least once a year. More frequent reviews (e.g., at least quarterly) should be carried out of large credits, problem credits or when the operating environment of the customer is undergoing significant changes (Bank of Mauritius, 2004 cited in Abebe F. , 2016). More banks lose money because they do not monitor their borrower's property, and fail to recognize warning signs early enough. When banks fail to give due attention to the borrowers and what they are doing with the money, then they will fail to see the risk of loss. The objective of supervising a loan is to verify whether the basis on which the lending decision was taken continues to hold good and to ascertain the loan funds are being properly utilized for the purpose they were granted. Follow-up the financial stability of a borrower can be done by periodically scrutinizing the operations of the accounts, examining the stock statements and ascertaining the value of security. Visiting the borrower periodically to have understanding of the progress of the borrower's business activity and thereby give advice as necessary is also among the methods Banks adopt to follow-up their loans (Tadesse, 2020). Rouse (1989) cited in Tesfahunegn (2018) identified internal records, visits and interviews, audited and management accounts as some of the things that help in the monitoring and control process.

According to Tesfahunegn (2018) monitoring can help to minimize the incidence of unsettled loans in three ways which are:

- Ensuring the utilization of the loan for the intended purpose.
- Identifying early warning signals of any problem relating to the operations of the business that are likely to affect the performance of the loan.
- Affording the lender the opportunity to discuss the problems and prospects of the borrowers business. Borrowers who miss repayments are pressured at this stage; if the arrears continue to pile up, legal action is initiated against the borrower and guarantor(s) to recover any amounts owed, but usually after the designated collateral has been seized and offset against the indebtedness.

Salas and Saurina (2002) cited in Abebe (2019), are of the view that inefficient bank management causes NPLs. The loans are more secure if the banks keep a continuous check on the borrowers. The banks need to give their borrowers full attention, so they are not relaxed at any stage about repayment of their loans. It has been seen that less monitoring of borrowers leads to NPLs (Agresti et al, 2008 cited in Abebe, 2019).

Coming to Ethiopia, from the regulatory point of view, Ethiopian banks are required to make continuous review of their loan and submit reports to the central bank. This function of banks has a legal as well as contractual base. But the detail as to the frequency of visiting the borrower's premises, verifying the use of the loan and other related circumstances is left to the discretion of individual banks. The legal base for banks to do the review is provided under Article 5 of Directive No.SBB/43/2008 (Tadesse, 2020).

Bezeye (2020) noted that continuous project follow-up reminds borrowers to pay attention toward their business and enables to increase their perception of responsibility toward loan repayment and also increase loan collection rate. Effective ways of monitoring borrower's loan portfolios helps borrows to reduce the high loan delinquency and default rates (Neema Mori, Thadei Nyantori and Donath Olomi, 2016 cited in Bezeye, 2020).

According to Balogun and Alimi (1988) cited in Berhe (2020), The major cause of NPL among the factors is poor supervision or follow-up.

2.1.8. Principles for Effective Loan Portfolio

It is in every bank's interest to look for the right strategic techniques that will reduce its overall credit risk as much as possible and still be able to profit from the lending business (Felix & Claudine, 2008 cited in (Geitangi, 2015). The quality of the credit portfolio of the bank depends on the economic position of individual credit borrowers. (Šenkýřová, 2007 cited in Spuchľáková, Valašková, & Adamkoc, 2015)

Comptroller of the Currency Administrator of National Banks (2017) noted that good loan portfolio managers have concentrated most of their effort on prudently approving loans and carefully monitoring loan performance for decades. Management of credit risk, however, must continue after a loan has been made, for sound initial credit decisions can be undermined by improper loan structuring or inadequate monitoring.

By acknowledging that loan portfolio management strategies vary by institution and country, Lamb, (2014) identified seven principles for effective loan portfolio and risk management that could apply universally. These principles were:

i. Understand two major principles of risk: a) Stuff happens, and b) You don't know what you don't know.
ii. Loan portfolio management is only one aspect of overall risk management
iii. Know your organization's risk position and appetite for risk
iv. Build risk management principles into your strategic plan
v. Monitor key performance indicators and share the results
vi. Have a rigorous, independent review process
vii. A culture of trust and respect

2.2. Review of Empirical Studies

Geitangi (2015) used descriptive survey research design by adopted a census study by making use of primary data which was collected using semi-structured questionnaires and secondary data was collected from commercial banks financial reports and Central Bank of Kenya supervisory reports. A linear regression model was applied to examine the relationship between the variable. The study concluded that commercial banks use credit risk identification to a very great extent which resulted in reduction in default rates among bank clients. The study concluded that there existed a significant negative relationship between use of credit risk control and level of non-performing loans. Kurawa and Garba (2014) cited in Geitangi (2015) assessed the effect of credit risk management (CRM) on the profitability of Nigerian banks with a view to discovering the extent to which default rate (DR), cost per loan asset (CLA), and capital adequacy ratio (CAR) influence return on asset (ROA) as a measure of banks' profitability. This study also applied descriptive statistics. Additionally, it used correlation, as well as random-effect generalized least square (GLS) regression techniques as tools of analysis in the study. The findings establish that CRM as measured by three independent variables (default rate (DR), cost per loan asset (CLA), and capital adequacy ratio (CAR)) have a significant positive effect on the profitability of Nigerian banks.

With the aim of examining the factors affecting effectiveness of credit risk management in 17 commercial banks in Ethiopia, Fekadu (2021) used both descriptive and multiple regressions and observed that most of the respondents that were part of the survey were not satisfied that the credit information, credit disbursement and credit approval process in a banking business, while they are agreed that monitoring and follow-up was appropriately implemented. The result of the multiple regression showed that the factors have an effect on the effectiveness of credit risk management system that is credit information, credit approval, credit disbursement and monitoring and follow-up has a positive and significant effect. A Pearson correlation coefficient in the same study reveals that there is significant correlation coefficient of the factors with the effectiveness of credit risk management system. The Pearson correlation coefficient values for credit information, credit assessment, credit approval, credit disbursement and monitoring and follow-up with effectiveness of credit risk management were 0.643, 0.785, 0.870,0.872 and 0.875, respectively. It can be observed that monitoring and follow-up had the highest vale and the author recommended that commercial banks should give high emphasis on the credit information, credit approval, credit disbursement and monitoring and follow-up process in order to attain the effectiveness of credit risk management system.

Tsegaye (2015) wanted to identify the actual performance of Project Rehabilitation and Loan Recovery Process (PRLRP) in relation to monitoring and follow-up activities, government policy and performance measurement criteria towards the ultimate goal of Development Bank of Ethiopia. The survey conducted by this researcher confirmed that the performance of PRLRP is really affected by monitoring & follow-up. The study finally recommended that to avoid or minimize the sick loans the organization should work on even default, monitoring and follow-up activities should have to give more emphasis on every step of the business. Kiflu (2015) also carried out as an assessment of loan recovery performance in Development Bank of Ethiopia. The study was based on primary data collected through questionnaires survey from 118 employees working in loaning unit of Bank and descriptive research methods was employed to identify the loan recovery performance of the Bank. The assessment result showed that the loan repayment period, assessment of customer credit history, collateral estimation, project follow-up, monitoring and controlling system, delays to decide on non-performing loans has affected the loan recovery performance of the Bank. Another study conducted in the same bank by Tadesse (2020) estimated long run coefficient of Monitoring Ensures Loan Performance attributes had significant contribution for NPL at 5% level of significance; this indicates that as the bank recompense better Monitoring Ensures Loan Performance attributes at DBE, there would be a better level of project loan NPL.

An assessment conducted on the cases of Non-Performing Loans in the Development Bank of Ethiopia by Abebe (2019) found that level of monitoring of the bank contributing highest level as a factor for nonperforming loan of. In fact, out if the total respondents 87.5% of respondents shared poor credit monitoring as the highest factors which causes Non-performing Loan even surpassing factors such as macroeconomic factors, customers credit attitude/culture, poor credit risk assessment and political instability. Based on a survey conducted on employees working in the credit unit of the Bank, Gashaw (2015), also observed that Bank's credit monitoring and follow-up system have problems that significantly contributed to the occurrence of NPL.

Shirega (2016) assessed the determinants of successful loan repayment performance of project financing in the case of Development Bank of Ethiopia using explanatory design and quantitative research approach. The researcher collected data from individual borrowers' files of which 53% were successful financed projects (non-defaulters), whereas the rest 47% were non-successful ones (defaulters). The policy implications of the study suggest that Development Bank of Ethiopia should intensify its project monitoring and follow-up work in order to make well-informed decisions and provide technical assistance for its credit-assisted projects.

Explanatory research conducted on the determinants of loan repayment in the Development Bank of Ethiopia by Bezeye (2020) showed that on average number of project follow-up/monitoring has conducted in the individual project by the bank is 1.3 times for defaulter projects/ borrowers and 2.9 times for the non-defaulter borrowers/successful projects/per annum. The study found that as the number project follow-up per year increase the probability borrowers of being non-defaulter increase while the number of follow-up decreases, borrowers tend to be defaulter. His results were similar with that of other similar studies such as Shirega (2016).

2.3. Summary of Literature Review

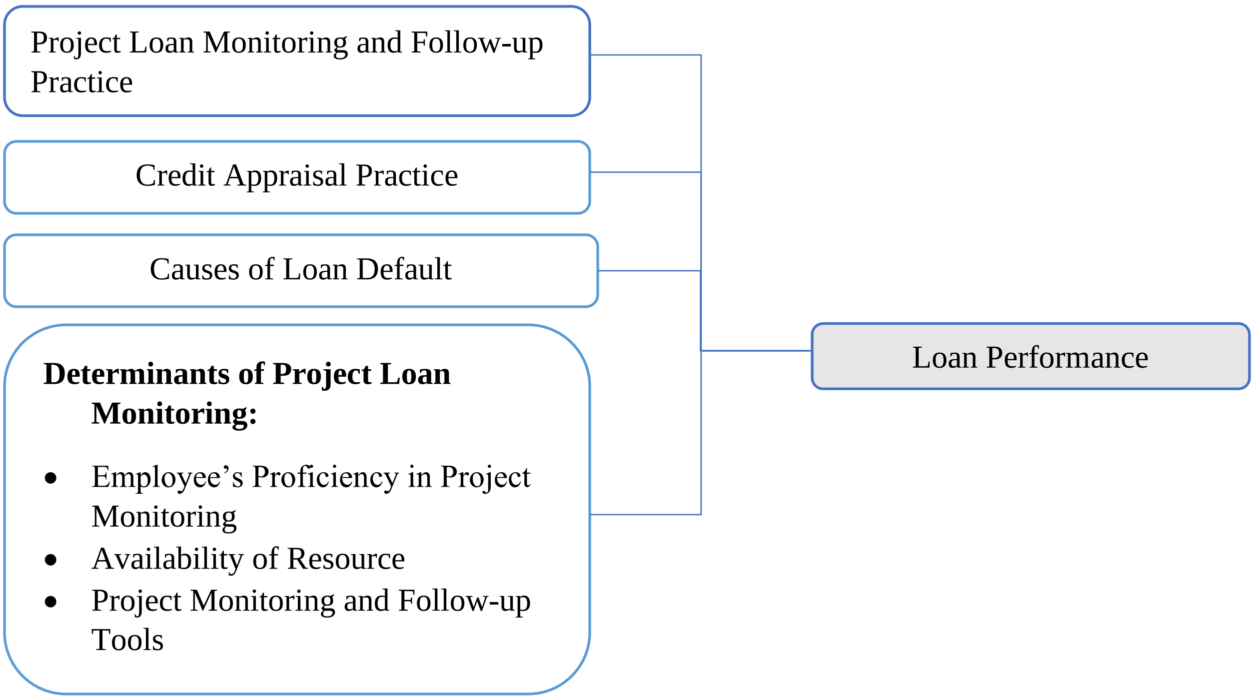
From the reviewed literature, it is evident that the level of project monitoring has a significant impact on the success of projects. Most of the available studies have established that strong monitoring influence the repayment of loans and performance of commercial banks.

However, most of these studies focused state owned banks in to consideration, especially the Development Bank of Ethiopia. What is more, most similar studies assess the determinants of NPLs and the monitoring practices in place from the borrowers' or the projects perspective and they were conducted from financial and business administration point of view and not project management.

2.4. Conceptual Framework

Based on the main objective of the study, conceptual framework depicted in Figure 1 below is developed. Despite the literature gap in the specific area, project monitoring personnel's' skills, resource and monitoring tools are believed to impact project loan monitoring and follow-up practice. Credit appraisal is also believed to impact loan performance and determine the project loan monitoring and follow-up practice.

Figure 1: Conceptual Framework



Chapter Three

3. Research Methodology

This chapter presents the research design implemented in this study, the target population, respondents, and tools used for the collection and analysis of data. It also outlines the ethical considerations.

3.1. Research Design

The study took the form of descriptive study design. A descriptive research design was found appropriate to explore the loan portfolio monitoring and follow-up practice of the Bank. This method was chosen because it is purely on a theoretical basis where the researcher collected data, analyzed, interpreted and then presented it in an understandable manner. Using the descriptive approach, the study describes the situation in as much depth as possible given the time and resource constraint. The study used a mixed approach of both qualitative and quantitative data and analysis.

3.2. Study Area and Target Population

The study area for this research was Awash Bank. Out of the twenty-three banks operating in the country, Awash Bank is selected purposively since it was the biggest private bank in the Country and although the NPL rate of the bank was low, other Banks and interested parties could learn from the experience of the Bank. It considers the loan portfolio management function of the Bank which is located in its head office and it did not consider the cases at branch level.

The target population of the study were personnel of the loan portfolio management function in the Bank. As at April 30, 2022, there were a total of 37 technical employees in the function.

3.3. Sampling Technique and Sample Size

The study targeted the 37 technical staff out of the 52 staffs working in the credit analysis and loan portfolio function of the Bank. All the 37 technical staff were approached given the relative small number.

3.4. Data Collection

Two sets of data are used for this study. These are primary and secondary data. Primary data was collected through a semi-structured questionnaire that had a Likert scale. Questionnaire is used in this study as it is the most appropriate, reliable and cheaper means of collecting primary data. In addition, the reason as to why this tool was applied is because it was more objective and convenient to both the researcher and the respondents and was administered in a relatively easy manner.

The researcher distributed the questionnaires to the target respondents virtually through a google forms link and a hardcopy for those that could not have easy access to respond online to ensure that the everyone in the target sample got a copy of the questionnaire. Collecting the data online also saved time of compiling the responses gathered. The respondents were allocated adequate time to complete the questionnaires. Secondary data was used to support the findings of the primary data.

The questionnaire had two main parts. The first was questions intended to gather general information on the respondents. The second one was questions related to the project loan appraisal and monitoring practices and it had five sub-sections designed to gather respondents' insight on the causes of loan default, credit appraisal practice, credit monitoring and follow-up practice, employees' proficiency, and factors that impact project loan monitoring and follow-up practice.

Depending on the findings of the questionnaire, qualitative data was collected by using semi-structured interview from selected respondent with sufficient experience in the concerned area of interest.

3.5. Data Analysis

The collected data was analyzed using descriptive statistics such as mean, percentage and standard deviation. SPSS version 28 was used in this study to assess the data. The results obtained are presented using tables and figures.

3.6. Reliability and Validity

To enhance reliability the researcher developed data collection instrument based on research questions, research objectives and problem statement. The measurement tools were developed on facts and understanding of the process that are involved in coming up with a questionnaire.

Reliability of the responses gathered were assessed Cronbach Alpha coefficient test. Accordingly, the results from all the questions gave a coefficient of 0.864 which is acceptable since it is over 0.7. The individual tests for the individual factors assessed in the study also gave a Cronbach Alpha coefficient of greater than 0.7, which shows that the responses are reliable.

Table 2: Cronbach's Alpha Test

	Cronbach's Alpha	**Number of Items**	**Internal Consistency**
Bank Specific Causes of Loan Default	0.819	7	Good
Borrower Specific Causes of Loan Default	0.890	6	Good
Credit Appraisal Practice	0.760	2	Acceptable
Project Loan Monitoring and Follow-up Practice	0.758	9	Acceptable
Employees' Proficiency	0.742	3	Acceptable

To ensure validity, a thorough review of the literature was made. The views of experts including the project advisor was sought and data collection was made by disclosing the purpose and goals of the study.

3.7. Ethical Consideration

The study assures confidentiality, honesty, and informed consent in study methods, procedures, and presentation of results ensuring that there was no falsified or misrepresentation of data. The participants were properly informed about the purpose of the study and the confidentiality of their responses was confirmed to them. This included briefly explaining non-disclosure of individual identity and that they would not be liable for any risk arising from the study or the response. The required information was collected only from interested participants and they were informed of their right to withdraw at any time if they felt inconvenience of participation. All the Bank’s financial or non-financial documents are preserved confidential and not disclosed to third party in any form.

The study eliminated bias in data analysis, interpretation, and other aspects of the research. Furthermore, all references used in this study that are work of other scholars or writers are properly acknowledged.

Chapter Four

4. Data Analysis and Interpretation

As indicated in the first chapter, the main goal of this study was to assess the credit monitoring and follow-up practice of Awash Bank. Additionally, it aims to identify gaps in the project loan monitoring and follow-up practices of Awash Bank, assess the credit appraisal system of the Bank, and investigate the impact of project credit monitoring and follow-up on loan performance.

In this section of the study, the data analysis is presented. In the first sub section, the general background of respondents is given by considering their gender composition, age, education level, their role in the Bank and their experience. Following that, a descriptive analysis is given to show the findings of the survey to examine and interpret the findings on causes for Project Loan Default, Project Credit Appraisal Practice, and Project Loan Monitoring & Follow-up Practice of the Bank. Factors that Impact Project Monitoring & Follow-up Practice and challenges are also discussed in this section.

4.1. General Background of Respondents

The questionnaire prepared for this study was distributed to 37 technical staffs identified as the target population of the study. A total of 28 completed responses were submitted making the response rate 75.7%. Given the response rate and homogeneity of the respondents, it can be considered that the responses gathered are representative of the opinions of the target population.

4.1.1. Gender Composition of Respondents

Out of the total respondents, 15 of them or 53.6% of them were females while the remaining 13 participants were male.

Table 3: Demography of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Gender	Male	13	46.4	46.4	46.4
	Female	15	53.6	53.6	100.0
	Total	**28**	**100.0**	**100.0**	
Age	Below 30 Years	4	14.3	14.3	14.3
	31 to 35 Years	12	42.9	42.9	57.1
	36 to 40 Years	10	35.7	35.7	92.9
	Above 50 Years	2	7.1	7.1	100.0
	Total	**28**	**100.0**	**100.0**	
Education Level	Below BA/BSc	1	3.6	3.6	3.6

	BA/BSc	9	32.1	32.1	35.7
	MA/MSc	18	64.3	64.3	100.0
	Total	**28**	**100.0**	**100.0**	

Source: Survey Result, 2022

Most of the respondents, which make up about 42.9% were within the age group of 31 and 35 years. The second highest frequency for age group was between the ages of 36 and 40 which had ten participants or about 35.7% of them. Following that, four participants were below the age of 30 years while the remaining two participants were over the age of 50.

When we look at the education level of the respondents, out of the total respondents, 64.3% were MA or MSc degree holders. Nine employees (32.1%) were BA or BSc degree holders while the remaining one employee had an academic qualification of below BA or BSc degree. This shows that the participants have adequate academic qualification to take part in this survey and provide appropriate response.

4.1.2. Role of Respondents

When we look at the role the respondents had in the Bank, half of them were Credit Analysts at officer level, five were credit monitoring and follow-up officer, four were credit information officers and one was credit documentation officer. The remaining for were seniors from credit analysis, credit monitoring and follow-up and portfolio analysis. The interview was conducted with the Bank's Credit Monitoring and Follow-up Division Manager.

4.1.3. Experience of Respondents

Experience wise, the participants experience was examined from three perspectives: i) their general or total experience, ii) their experience in Awash Bank and iii) their experience in credit function. Accordingly, it was observed that most of the participants had a total experience of over five years. Twenty-one participants were employees of the Bank for at least 6 years and above and more than half of them (53.6%) have an ample experience of working in the Bank's credit function for at least 6 years or above. Hence, it can be inferred that the participants provided their responses based on the adequate professional experience they have.

Table 4: Work Experience of Respondents

		Total Experience				Experience in Awash Bank				Experience in Awash Bank's Credit Function			
		Frequency	%	Valid Percent	Cumulative Percent	Frequency	%	Valid Percent	Cumulative Percent	Frequency	%	Valid Percent	Cumulative Percent
Valid	Below 2 Years	2	7.1	7.1	7.1	1	3.6	3.6	3.6	2	7.1	7.1	7.1
	2 to 5 Years	4	14.3	14.3	21.4	6	21.4	21.4	25.0	11	39.3	39.3	46.4
	6 to 10 Years	12	42.9	42.9	64.3	11	39.3	39.3	64.3	11	39.3	39.3	85.7
	11 to 15 Years	5	17.9	17.9	82.1	6	21.4	21.4	85.7	3	10.7	10.7	96.4
	16 to 20 Years	3	10.7	10.7	92.9	3	10.7	10.7	96.4	1	3.6	3.6	100.0
	Above 20 Years	2	7.1	7.1	100.0	1	3.6	3.6	100.0	0	0.0	0.0	100.0
	Total	28	100	100		28	100	100		28	100	1000	

Source: Survey Result, 2022

4.2. Causes for Project Loan Default

In the survey conducted, the causes for project loan default were assessed from two sides. The first was bank specific factors and the second was borrower specific factors.

4.2.1. Bank Specific Factors for Project Loan Default

The calculated mean scores of the question items in the survey were categorized in to five as per the degrees of respondents' opinion in significance and agreement for interpretation as given below in Table 6.

Table 5: Calculated Mean Score Interpretation for Five-Scale Likert's Response

Calculated Mean Value	Representation of Response	
	Significance	Agreement
From 1 to 1.80	Insignificant	Strongly Disagree
From 1.81 until 2.60	Minor	Disagree
From 2.61 until 3.40	Moderate	Neutral
From 3:41 until 4:20	Significant	Agree
From 4:21 until 5:00	Highly Significant	Strongly Agree

Source: Al-Sayaad, Rabea, and Samrah, 2006

The survey result showed that out of the seven bank specific factors identified as potential causes of project loan default in the survey tool, two of them, management intervention in loan processing/approval and failure to take timely action by the bank when the borrower starts to default based on the findings of monitoring & follow-up were found to be significant causes for project loan default with a mean of 3.43 and 3.71 respectively. Out of the total respondents, 42.9% of them responded that management intervention in loan processing/approval was “Significant” or “Highly Significant” factor in contributing to loan default.

It was observed that 32.1% of the respondents believed violation of the existing credit policies and procedure of the Bank was a significant contributor to loan default while 21.4% respondents believed the same factor is a highly significant contributor to loan default. Although the aggregate result was not significant, the mean value was still high (about 3.36).

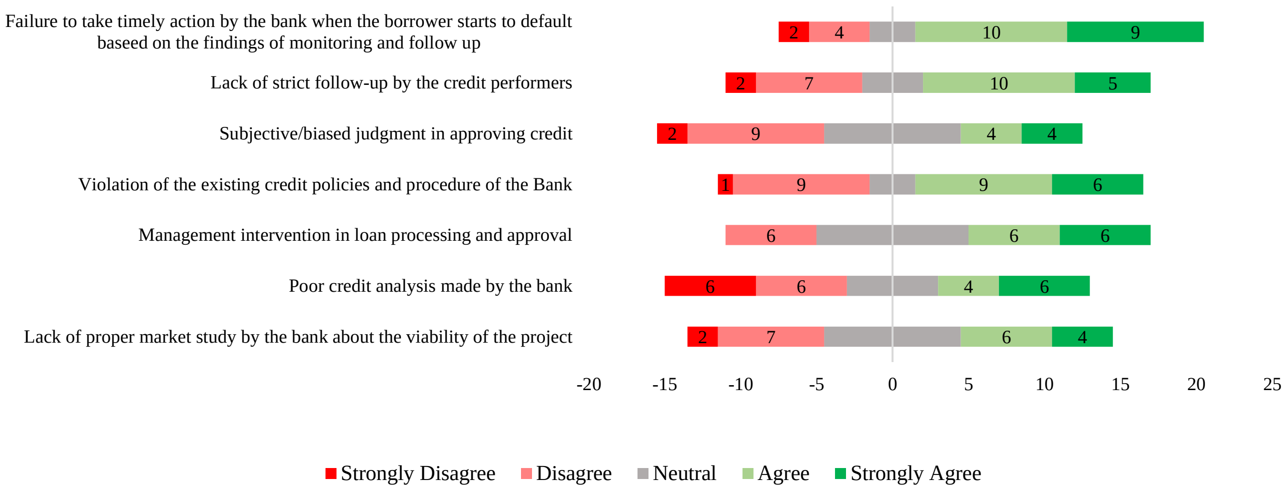
According to the overall response, lack of strict follow-up on the credit performance was found to be moderately significant with a mean of 3.32. However, about 35.7% of the respondents considered this factor a significant factor while 17.9% of the respondents considered it a highly significant factor in contributing to loan default. The overall mean of the bank specific factors was about 3.73 showing that the bank specific factors identified were significant in project loan default.

Table 6: Descriptive Statistics of Bank Specific Factors for Project Loan Default

	N	Minimum	Maximum	Mean	Std. Deviation	Response
Lack of proper market study by the bank about the viability of the project	28	1.00	5.00	3.1071	1.16553	Moderate
Poor credit analysis made by the bank	28	1.00	5.00	2.9286	1.46385	Moderate
Management intervention in loan processing and approval	28	2.00	5.00	3.4286	1.06904	Significant
Violation of the existing credit policies and procedure of the Bank	28	1.00	5.00	3.3571	1.25357	Moderate
Subjective/biased judgment in approving credit	28	1.00	5.00	2.9643	1.17006	Moderate
Lack of strict follow-up on the credit performance	28	1.00	5.00	3.3214	1.24881	Moderate
Failure to take timely action by the bank when the borrower starts to default based on the findings of monitoring and follow-up	28	1.00	5.00	3.7143	1.27242	Significant
Grand Mean	**28**	**2.50**	**5.00**	**3.7277**	**0.751583**	**Significant**
Valid N (listwise)	28					

Source: Survey Results, 2022

Figure 2: Frequency of Respondents Feedback on Bank Specific Factors for Project Loan Default



Source: Survey Results, 2022

The Bank's Credit Monitoring and Follow-up Division Manager was asked if there were other bank specific factors that contribute to project loan default. In addition to stressing the role that credit monitoring and follow-up has, it was found that over financing or underfinancing of projects was another bank specific factor that led to project loan default.

4.2.2. Borrower Specific Factors for Project Loan Default

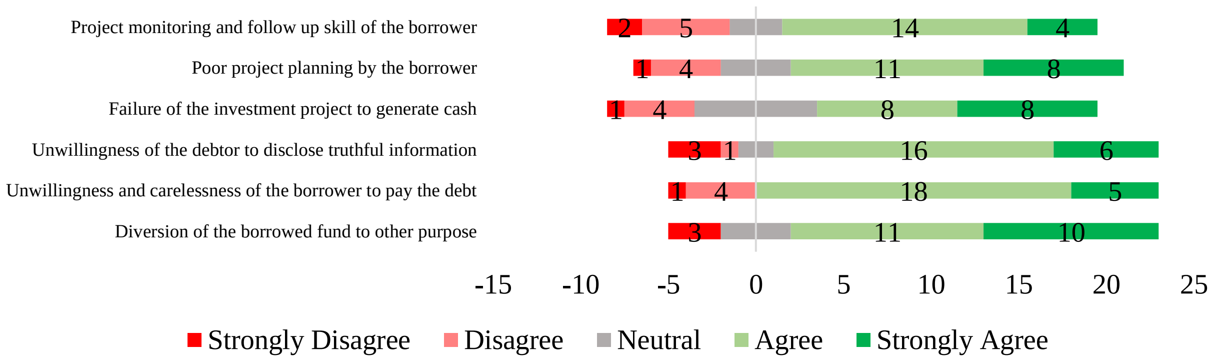
Unlike the bank specific factors for which only two out of the seven factors were found to be significant, all the potential borrower specific factors were found to be significant in the overall results. The highest significance was observed in diversion of the borrowed fund to other purpose with a mean of 3.89 followed by unwillingness and carelessness of the borrower to pay their debt with a mean of 3.79 and poor project planning by the borrower which had a mean of 3.75 in the overall result. Diversion of the borrowed fund to other purpose was observed to be a significant borrower specific factor with 39.3% of the respondents indicating it as a significant contributor while another 35.7% of the respondents indicated it as a highly significant factor for borrower specific loan default. CBE (2009) et al. cited in Abebe F. (2016), also found that loans granted on the basis of sound analysis/appraisal might go bad because the borrower may not meet their obligations per the terms and conditions of the loan contract. Additionally, the overall mean of the borrower specific factors was about 4.04 showing that the borrower specific factors identified were also significant in project loan default.

Table 7: Descriptive Statistics of Borrower Specific Factors for Project Loan Default

	N	Minimum	Maximum	Mean	Std. Deviation	Response
Diversion of the borrowed fund to other purpose	28	1.00	5.00	3.8929	1.22744	Significant
Unwillingness and carelessness of the borrower to pay the debt	28	1.00	5.00	3.7857	1.03126	Significant
Unwillingness of the debtor to disclose truthful information	28	1.00	5.00	3.7500	1.17458	Significant
Failure of the investment project to generate cash	28	1.00	5.00	3.6429	1.16155	Significant
Poor project planning by the borrower	28	1.00	5.00	3.7500	1.14261	Significant
Project monitoring and follow-up skill of the borrower	28	1.00	5.00	3.4643	1.17006	Significant
Grand Mean	**28**	**1.71**	**5.00**	**4.0408**	**0.79383**	**Significant**
Valid N (listwise)	28					

Source: Survey Results, 2022

Figure 3: Frequency of Respondents Feedback on Borrower Specific Factors for Project Loan Default



Source: Survey Results, 2022

It was observed that additional borrower specific factor that could cause the project loan default according to the Bank's Monitoring and Follow-up Division Manager was bankruptcy of the borrower due to different factors which are not necessarily related with the specific project for which they borrowed the money is an additional factor. It was also observed that the competency level of the borrowers' management is another key factor.

4.2.3. External Factors from for Project Loan Default

Additional factors that contribute to project loan default were observed during an interview conducted with the Bank's Credit Monitoring and Follow-up Division Manager.

Accordingly, it was found that there are three main external factors that lead to project loan default in the Bank. These factors were: (i) inflation, (ii) political violence and instability, and (iii) climate change. It was observed that these causes and their severity differs from one another depending on the project time. For instance, climate change was most likely to affect and be sever on projects related with agriculture while inflation was highly severe on manufacturing projects.

4.3. Project Credit Appraisal Practice

Credit appraisal practice is a key determinant in project loan default as it is the initial stage where the worthwhileness of a project is assessed and decision is made on the need to finance the project or not. With this in mind, respondents were asked about the Bank's credit appraisal practice and their opinions on the role credit appraisal has on loan performance.

The findings from the descriptive statistics of the survey showed that the respondents agree in the strong role credit appraisal has on loan performance. Respondents strongly agree that poor risk assessment would lead to loan default with a mean of 4.32. It was observed that 42.9% of the participants strongly agree that poor risk assessment would lead to loan default while another 46.4% of the participants agree with the statement.

The participants were asked if the Bank observes the project management capacity of the borrowers while providing loan to projects. According to the mean score for this stamen, most of the participants agree with this. What is more, 60.7% of the participants responded as "Agree" with this statement while 10.7% of them responded "Strongly Agree". This was later supported based on the feedback of the Bank's Credit Monitoring and Follow-up Division Manager who indicated that the Bank assess the project monitoring and follow-up capacity of the borrowers based on their human capital, their experience in the field (specifically in the project they are planning to undertake) and previous experience in similar projects. Additionally, the experience of managers and technical experts in the project was also observed.

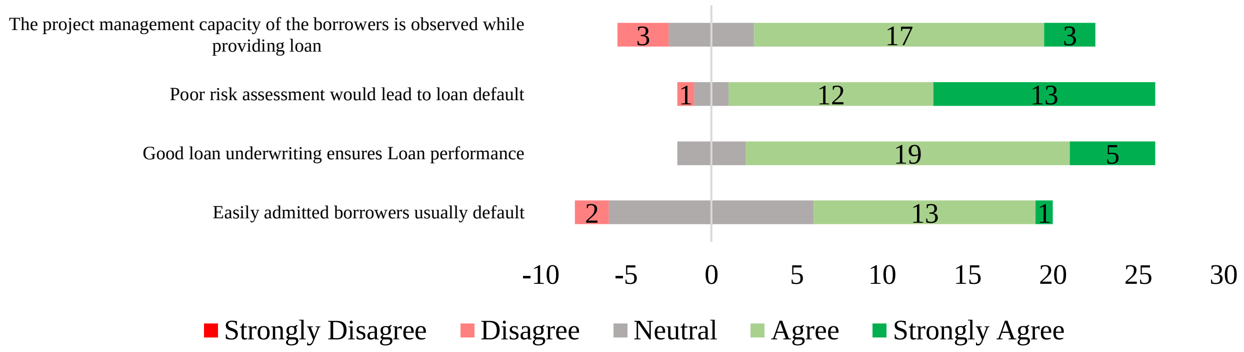
The participants in the study also agree that easily admitted borrowers usually default and that good loan underwriting ensures loan performance.

Table 8: Descriptive Statistics of Credit Appraisal Practice

	N	Minimum	Maximum	Mean	Std. Deviation	Response
Easily admitted borrowers usually default	28	2.00	5.00	3.4643	0.69293	Agree
Good loan underwriting ensures Loan performance	28	3.00	5.00	4.0357	0.57620	Agree
Poor risk assessment would lead to loan default	28	2.00	5.00	4.3214	0.77237	Strongly Agree
The project management capacity of the borrowers is observed while providing loan	28	2.00	5.00	3.7143	0.80999	Agree
Grand Mean	**28**	**3.00**	**4.40**	**3.9071**	**0.314970**	**Agree**
Valid N (listwise)	28					

Source: Survey Results, 2022

Figure 4: Frequency of Respondents Feedback on Credit Appraisal Practice of Awash Bank



Source: Survey Results, 2022

4.4. Project Loan Monitoring and Follow-up Practice

As indicated in the objective of the study, the main aim of this study was to assess the credit monitoring and evaluation practice of Awash Bank. Broadly speaking, the respondents agree with the Project Loan Monitoring and Follow-up practices of the bank.

About 64.3% of the respondents agree and another 25.0% “strongly agree” that project monitoring and follow-up is a determinant for the repayment of loans, with a mean of 4.14. This figure increases when looking at the monitoring and follow-up of the loan instead of the project itself. The participants in the study strongly agree that loan follow-up is directly related to occurrence of nonperforming loans with a mean of 4.25. About 89.3% of the respondents agree with this, out of which 46.4% responded as “Agree” and another 42.9% responded “Strongly Agree”. These findings are consistent with that Abebe (2019) and

Bezeye (2020) who found that monitoring is related with loan performance, and the recommendations of Shirega (2016).

Another project loan monitoring and follow-up practice for which the respondents strongly agreed on is that strict monitoring ensures loan performance. Out of the 28 respondents, 46.4% of them strongly agree while 39.3% agree that strict monitoring ensures loan performance with a mean of 4.21.

Majority of the respondents also agree that the Bank has a standard in place to help it monitor & follow-up project loans and that there are periodic monitoring and follow-up as per the standard for projects loans with a mean of 4.00 and 3.93. It was further learned through interview that the Bank's standard to monitor projects is part of its Credit Policy document and that the bank practices project monitoring and follow-up practice accordingly. Participants of the study also agree that there is the practice to call customers (borrowers) to conduct off-site follow-up as required.

One of the bank specific factors that was found to be significant in project loan default was failure to take timely action by the Bank when the borrowers start to default based on the findings of monitoring and follow-up. Although the respondents generally agree it was a significant factor in causing loan default, according to most respondents, the bank passes decision on time for project loans based on the findings from their project monitoring and follow-up practice. This was witnessed by 67.8% of the respondents agreeing with the statement, which was later supported in the interview conducted. The grand mean value of the analysis on the Bank's project loan monitoring and follow-up practice was 4.43.

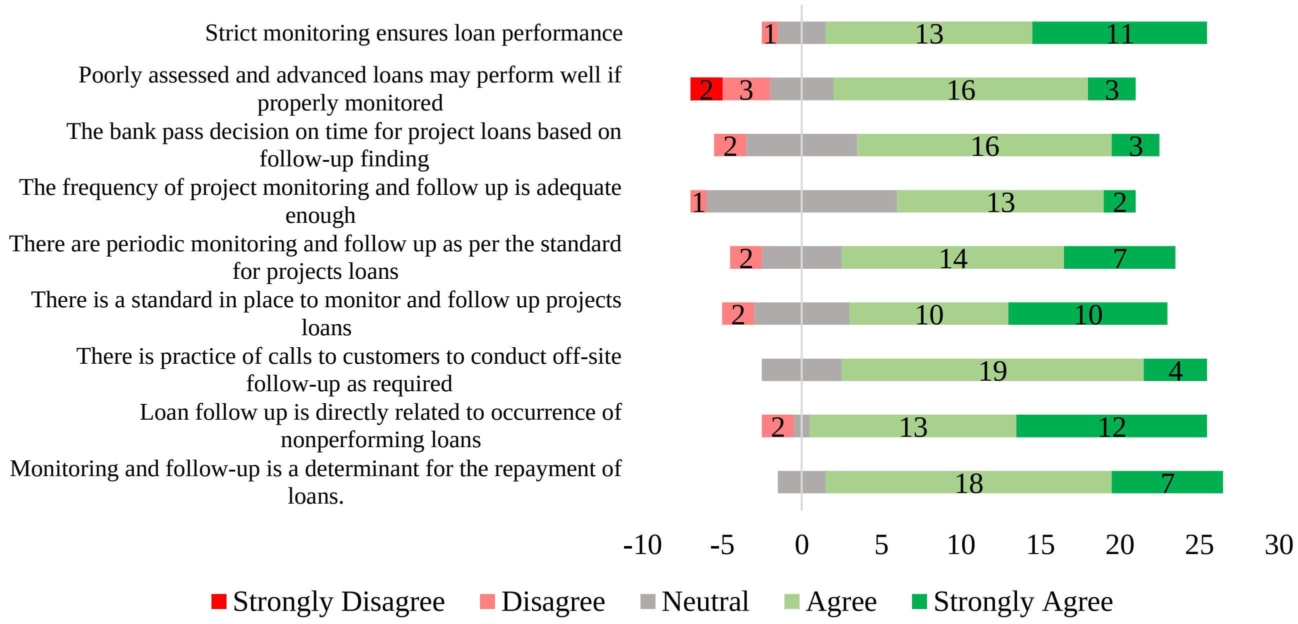
As indicated above, credit appraisal practice is a key determinant in project loan default as it is the initial stage where the worthwhileness of a project is assessed. Most of the participants however believe that loan provided for poorly assessed projects might perform well perform well if the Bank properly monitored and followed up the projects.

Table 9: Descriptive Statistics of Project Loan Monitoring and Follow-up Practice of Awash Bank

	N	Minimum	Maximum	Mean	Std. Deviation	Response
Project Monitoring and follow-up is a determinant for the repayment of loans	28	3.00	5.00	4.1429	0.59094	Agree
Loan follow-up is directly related to occurrence of nonperforming loans	28	2.00	5.00	4.2500	0.84437	Strongly Agree
There is practice of calls to customers to conduct off-site follow-up as required	28	3.00	5.00	3.9643	0.57620	Agree
There is a standard in place to monitor and follow-up project loans	28	2.00	5.00	4.0000	0.94281	Agree
There are periodic monitoring and follow-up as per the standard for projects loans	28	2.00	5.00	3.9286	0.85758	Agree
The frequency of project monitoring and follow-up is adequate enough	28	2.00	5.00	3.5714	0.69007	Agree
The bank pass decision on time for project loans based on follow-up finding	28	2.00	5.00	3.7143	0.76290	Agree
Poorly assessed and advanced loans may perform well if the projects properly monitored by the Bank	28	1.00	5.00	3.5357	1.07090	Agree
Strict project monitoring ensures loan performance	28	2.00	5.00	4.2143	0.78680	Strongly Agree
Grand Mean	**28**	**3.40**	**5.00**	**4.4321**	**0.42343**	**Strongly Agree**
Valid N (listwise)	28					

Source: Survey Results, 2022

Figure 5: Frequency of Respondents Feedback on Awash Bank's Project Loam Monitoring and Follow Up Practice



Source: Survey Results, 2022

Based on the interview conducted with the Bank's Credit Monitoring and Follow-up Division Manager, it was observed that the bank has a full-fledged monitoring and follow-up practice for projects. Project loans were provided based on an agreement with the borrower. In most cases, project loans are advanced by phases indicated in the agreement and the bank has Engineers that evaluate the projects at each phase ahead of advancing loans. There is also a preliminary assessment conducted on the projects before granting loan to the borrowers.

Regarding the capacity the Bank has in project monitoring and follow-up, it was learned that the bank has well-structured credit function with different units working in appraisal and monitoring and follow-up. In the interview, it was pointed out that the bank has highly skilled employees.

Another question forwarded to the Bank's Credit Monitoring and Follow-up Division Manager was how the bank evaluates the performance of the project loan monitoring and follow-up function and individual employees within the function. This question was asked to assess if the performance management system of the employees was directly related with their roles with the assumption that employees and work units are more likely to perform well and achieve their target if their performance management system was directly associated with their specific roles and responsibilities. Accordingly, it was observed that employees in the division were evaluated by considering performance parameters that were directly related with their duties. These parameters included the amount of Non-Performing Loans and timely collection of debts.

4.5. Proficiency in Project Monitoring and Follow-up

Respondents agree that technical skills are a huge determinant on how monitoring and follow-up is done. It was also observed from the survey result that concerned employees of the Bank have adequate knowledge to monitor and follow-up projects with about 60.7% of the respondents agreeing with the statement. Participants in this study agree that adequate training is provided to concerned employees on project monitoring and follow-up practices.

Table 10: Descriptive Statistics on Proficiency in Project Monitoring and Follow-up

	N	Minimum	Maximum	Mean	Std. Deviation	Response
Technical skills are a huge determinant on how monitoring and follow-up is done	28	1.00	5.00	3.9643	0.83808	Agree
Concerned employees of the Bank have adequate knowledge to monitor and follow-up projects	28	2.00	5.00	3.6786	0.81892	Agree
Adequate training is provided to concerned employees on project monitoring and follow-up practices.	28	2.00	5.00	3.6429	0.91142	Agree
Grand Mean	**28**	**2.50**	**4.50**	**3.5714**	**0.52200**	**Agree**
Valid N (listwise)	28					

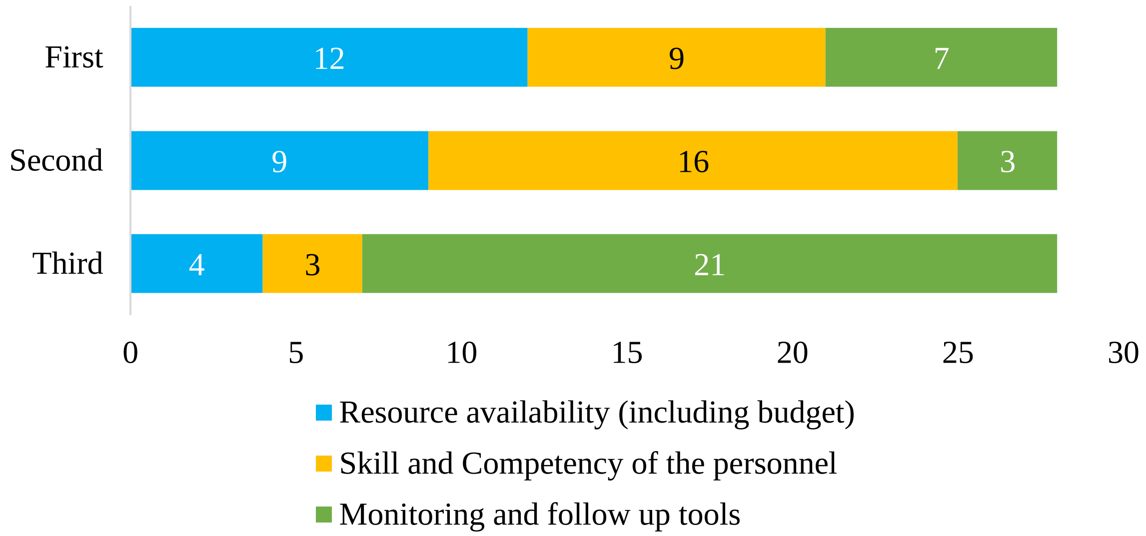
Source: Survey Results, 2022

4.6. Factors that Impact Project Monitoring and Follow-up Practice

As briefly indicated in the literature review, there are different factors that affect the monitoring and follow-up practice on projects. Three key factors that could potentially impact project monitoring and follow-up practice were identified in this study. These three factors were: (i) Resource availability (including budget), (ii) Skill and Competency of the personnel, and (iii) Monitoring and follow-up tools utilized in the project monitoring. Accordingly, participants were asked to rank these three factors based on which factor they believe is most crucial than the rest.

The survey result showed that according to most of the respondents, which account about 42.9%, availability of resource including adequate finance was the most crucial factor that impacts the Project Monitoring and Follow-up practice of the bank. The need have adequate resources to aid effective monitoring was consistent with the findings of (Francis, 2009 cited in Abebe F., 2016). This was followed by Skill and Competency of the personnel which was ranked second by 57.1% of the respondents. The monitoring and follow-up tools were ranked third by 75% of the respondents, showing that the role of the monitoring and follow-up tools is relatively less crucial than resource and skill of the personnel according to the respondents.

Figure 6: Factors that Impact Project Monitoring and Follow-up Practice Ranked based on Relevance



Source: Survey Results, 2022

4.7. Challenges in the Project Loan Portfolio Monitoring and Follow-up

Participants in the survey were asked to indicate the challenges in the project loan monitoring and follow-up practice of the bank. It was observed that political instability was a challenge raised by relatively more participants. It was also observed that inflation is a key economic constraint that has posed a challenge in the bank's project loan monitoring and follow-up practice. Poor project schedule management of the borrowers which led to delayed project execution was also mentioned as one challenge. Project delay usually led to borrowers not starting to settle their loans timely after the project grace period.

A more contextualized insight was gathered from the interview with the Bank's Credit Monitoring and Follow-up Division Manager. It was observed that the challenges the bank has in project Monitoring and Follow-up is the distance of some borrowers which make it challenging to conduct onsite Monitoring and Follow-up. The respondent was asked if the Project Loan Monitoring and Follow-up function of the bank was centralized in the head office and it was learned that the function is decentralized across districts and that Relationship Officers of the Bank also conduct continuous offsite Monitoring and Follow-up but distance or location of borrowers was still a challenge for onsite project monitoring.

The presence routine activities in the division added with the limited workforce the function has was also mentioned as another challenge by the respondent. The division was mostly working on reports submitted to the management and the regulating body, i.e., the National Bank of Ethiopia.

Chapter Five

5. Summary of Findings, Conclusions and Recommendations

The chapter summarizes the overall findings of the study and forwards possible recommendations to be addressed by the concerned bodies. In the following sub-sections, summary of the major findings followed by conclusions drawn from the study and recommendations are given. Finally, potential areas for further researches are indicated.

5.1. Summary of Findings

The main purpose of this study was to assess the project loan monitoring and follow-up practice of Awash Bank. To realize this objective and the other specific objectives of the study, questionnaire was designed by categorizing it in to three main sections as: causes of loan default, project loan appraisal practice, and project loan monitoring & follow-up practice. Additionally, employees' proficiency and key determinants for successful project loan monitoring practice were assessed. The major findings based on these assessments are:

Causes for Project Loan Default

- Borrower specific factors are believed to be more significant factors than bank specific factors. These factors are: Diversion of the borrowed fund to other purpose, Unwillingness and carelessness of the borrower to pay the debt, Unwillingness of the debtor to disclose truthful information, failure of the investment project to generate cash, poor project planning by the borrower, and project monitoring and follow-up skill of the borrower. Additionally, bankruptcy of the borrower and competency of the borrower's management team were identified as other borrower specific factors.
- From the identified bank specific factors that lead to project default, management intervention in loan processing & approval and failure by the Bank to take timely action when the borrower starts to default based on the findings of monitoring and follow-up were identified as significant causes for loan default. Overfinancing or underfinancing of projects was also identified as another bank specific factor that causes project loan default.
- Inflation, political violence & instability, and climate change were identified as external factors that lead to project loan default.

Credit Appraisal Practice

The findings show that poor risk assessment during credit appraisal could strongly lead to loan default and that good loan underwriting ensures loan performance on the other hand. The findings also shows that the Bank generally has a good credit appraisal practice.

Project Loan Monitoring and Follow-up Practice

Broadly speaking, Awash Bank has a good project monitoring and follow-up practice on the projects it finances. It was observed that project loan follow-up was directly related to occurrence of nonperforming loans and that strict project monitoring ensures good loan performance.

The fact that the performance evaluation system of the employees and the division is directly linked with what they do is good and something that is encouraged. Decentralization of the monitoring and follow-up is also good which enables the bank to easily monitor and follow-up by making use of its resources available.

The Bank conducts both onsite and offsite monitoring on the projects and it provides loans by phase based on the project performance. The project performance is also observed by people who have technical expertise in the area which gives it a strong opportunity to get professional feedbacks on project status. What is more, it was also observe that project loans could perform well if there is strong project monitoring and follow-up and even if the loan appraisal for that specific project was poor.

Determinants of Project Monitoring and Follow-up Success

From among the key potential project monitoring and follow-up practice success factors identified in the study, resource availability (including budget) was identified as the most crucial factor followed by, skill and competency of the personnel, and finally the tools utilized in the project monitoring.

5.2. Conclusion

The objective of this research was to assess the project loan monitoring and follow-up practice of Awash Bank. To achieve this objective, the study used mixed research approach by using survey and interview. Secondary sources of information were also employed in the study. The method of analysis used in this study was mainly descriptive using frequency, percentage, and mean as deemed appropriate. The analysis tool used in the study was SPSS. Responses gathered through the interview were incorporated in the sub topics of the analysis. Objectives of the study have been addressed through the research and articulated on in the above sub-section.

5.3. Recommendation

Based on the findings of this research, the following recommendations can be forwarded as possible measures to improve project loan monitoring and follow-up of Awash Bank:

- More focus should be given in evaluating the project monitoring capacity of borrowers based on historical data and previous experience. Although, the Bank looks in to the experience of the borrowers' management team and experience in similar areas, a more exhaustive look in to their experience in project management including schedule, budget, implementation and financial return is recommended to get an in depth understanding of their project monitoring and evaluation practice.
- The Bank should give continuous training for its employees on loan procedures and techniques of loan follow-up. As observed in the study, technical skills are a huge determinant on how project monitoring and follow-up is done. Hence, the Bank should continue delivering trainings that are tailored around project monitoring and follow-up to the concerned employees. Project monitoring and follow-up requires its own specific capacity and skills which is different from that of monitoring loans by merely by looking at accounts.
- The Bank should always finance projects based on their merits. As indicated in the findings of the study, management intervention in loan appraisal or approval and exercising outside the policies and procedures is one of the key factors that lead to loan default. Hence, there should be no management intervention in such practices.
- The Bank should also consider increasing its workforce in project monitoring and follow-up. That way, burden of routine activities will decrease and more attention could be given to monitoring and follow-up.
- Most importantly, the bank should always take timely and appropriate actions based on the findings of project monitoring and follow-up. The practice of monitoring and follow-up is pointless without taking appropriate action. In fact, the whole point should be about taking action and drawing lesson for the future.

5.4. Areas of Further Research

This study is limited to assessing the project loan monitoring and follow-up practice of Awash Bank by considering the Bank's personnel in the head office credit function. Hence, the findings are limited to the perception of the staff in the credit function and credit monitoring and follow-up function. Hence, further studies could be conducted by including the opinions of other management members and district employees. The study also recommends the inclusion of the perception of borrowers, specifically in project monitoring and follow-up to observe the relationship between project success and loan repayment.

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Annexes

Annex 1: Reliability Tests

a) **Reliability Test for Bank Specific Loan Default**

Reliability Statistics

Cronbach's Alpha	N of Items
.819	7

b) **Reliability Test for Borrower Specific Loan Default**

Reliability Statistics

Cronbach's Alpha	N of Items
.890	6

c) **Reliability Test for Credit Appraisal Practice**

Reliability Statistics

Cronbach's Alpha	N of Items
.760	2

d) **Reliability Test for Project Loan Monitoring and Follow-up Practice**

Reliability Statistics

Cronbach's Alpha	N of Items
.758	9

e) **Reliability Test for Employees' Proficiency**

Reliability Statistics

Cronbach's Alpha	N of Items
.742	3

Annex 2: Questionnaire

Dear respondent,

Thank you for taking the time to fill this questionnaire!

My name is Geda Abera and I am currently working on my thesis as partial fulfillment of Master's Degree in Project Management at Addis Ababa University School of Commerce. The purpose of my study is to assess the Project Loan Portfolio Follow-Up and Monitoring Practice of Awash Bank.

This questionnaire is designed to help me gather the required data and information from employees of Awash Bank. The quality of the result of this research is based on the accuracy of the information you provide so please take your time.

I would like to assure you that the information you provide will be reported and communicated in aggregate and utmost care will be taken for its confidentiality.

Thank you once again and should you have any questions, please call +251916585230 or email aberagedagmail.com.

INSTRUCTIONS: The questionnaires contain questions designed to assess the project loan monitoring and follow-up practice of Awash Bank. Please choose the answer of you believe to be most applicable according to the following five-point scale in terms of your own agreement and disagreement of the statement. Once you have answered all questions please click on the "Submit" button. Please provide your personal and professional opinion for each question.

Part One – Background Information

1. Please indicate your gender

   Male ☐ Female ☐

2. Please indicate your age bracket.

   Below 30 Years ☐ 41 to 46 years ☐

   31 to 35 years ☐ 46 to 50 years ☐

   56 to 40 years ☐ Above 50 years ☐

3. Education Level

   Below BA/BSc ☐

   BA/BSc ☐

   MA/MSc ☐

   PhD ☐

   Other (Please Specify) _____________

4. What is your current position in Awash Bank?

   ____

5. Please indicate your total years of experience (including experience other than Awash Bank).

   Below 2 years ☐ 11 to 15 years ☐

   2 to 5 years ☐ 16 to 20 years ☐

   6 to 10 years ☐ Above 20 Years ☐

6. Please indicate your experience in Awash Bank.

   Below 2 years ☐ 11 to 15 years ☐

   2 to 5 years ☐ 16 to 20 years ☐

   6 to 10 years ☐ Above 20 Years ☐

7. Please indicate your experience in the credit function of Awash Bank.

   Below 2 years ☐ 11 to 15 years ☐

   2 to 5 years ☐ 16 to 20 years ☐

   6 to 10 years ☐ Above 20 Years ☐

Part Two: Questions Related to Project Loan Assessment

Bank Specific Causes of Loan Default

How significant do you believe the following bank specific factors are as causes for loan default?

Statement	Insignificant	Minor	Moderate	Significant	Highly Significant
Lack of proper market study by the bank about the viability of the project					
Poor credit analysis made by the bank					
Management intervention in loan processing and approval					
Violation of the existing credit policies and procedure of the Bank					
Subjective/biased judgment in approving credit					

Lack of strict follow-up on the credit performance					
Failure to take timely action by the bank when the borrower starts to default based on the findings of monitoring and follow-up					

Borrower Specific Causes of Loan Default

How significant do you believe the following borrower specific factors are as causes for loan default?

Statement	Insignificant	Minor	Moderate	Significant	Highly Significant
Diversion of the borrowed fund to other purpose					
Unwillingness and carelessness of the borrower to pay the debt					
Unwillingness of the debtor to disclose truthful information					
Failure of the investment project to generate cash					
Poor project planning by the borrower					
Project monitoring and follow-up skill of the borrower					

Credit Appraisal Practice

Please rate the credit assessment method in relation to loan performance.

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Easily admitted borrowers usually default					
Good loan underwriting ensures Loan performance					
Poor risk assessment would lead to loan default					
The project management capacity of the borrowers is observed while providing loan					

Project Loan Monitoring and Follow-up Practice

Please rate the project loan monitoring practice in relation to loan performance.

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Project Monitoring and follow-up is a determinant for the repayment of loans					
Loan follow-up is directly related to occurrence of nonperforming loans					
There is practice of calls to customers to conduct off-site follow-up as required					
There is a standard in place to monitor and follow-up project loans					
There are periodic monitoring and follow-up as per the standard for projects loans					
The frequency of project monitoring and follow-up is adequate enough					
The bank pass decision on time for project loans based on follow-up finding					
Poorly assessed and advanced loans may perform well if the projects properly monitored by the Bank					
Strict project monitoring ensures loan performance					

Employees' Proficiency

Please rate the employees' proficiency in relation to loan performance

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Technical skills are a huge determinant on how monitoring and follow-up is done					
Concerned employees of the Bank have adequate knowledge to monitor and follow-up projects					
Adequate training is provided to concerned employees on project monitoring and follow-up practices.					

Rank the following three factors that impact project monitoring and follow-up from 1 to 3 (1 being the one with the highest relative impact)

a) Resource availability (including budget) ___________
b) Skill and Competency of the personnel ___________
c) Monitoring and follow-up tools ___________

What are the challenges in the Project Loan Portfolio Monitoring and Follow-up of the Bank in your opinion?

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Please provide any additional feedback on the Project Loan Portfolio Monitoring and Follow-up practice of the Bank.

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Annex 3: Interview Questions

a. Does the bank have full-fledged project monitoring and follow-up practice?
b. What capacity does the bank has to monitor and follow-up projects?
c. What are the strengths and weaknesses of the Bank's project loan monitoring and follow-up practice in your opinion?
d. Is there a procedure in place to continuously monitor and follow-up the progress of projects for which the bank has granted loan?
e. Is project management capacity of the borrowers observed?
f. What factors lead to loan default?
g. What factors do you believe impact the monitoring and follow-up of the bank?
h. What challenges are present in monitoring and follow-up of project loans?
i. How do you evaluate the loan Follow-up/monitoring performance of the function?