



**Assessment of Factors Determining Textile Project Distress:  
The case of  
Else Addis Industrial plc**

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**A Research Project submitted to Addis Ababa University,  
School of Commerce  
In partial fulfillment of the requirements for the award of Master of Arts  
Degree in Project Management**

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## DECLARATIONS

I Meseret Demeke registration number GSE/0082/08, do hereby declare that this project is my original work and that it has not been submitted partially; or in full, by any other person for an award of degree in any other university/institution.

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The undersigned certify that they have read and hereby recommend to Addis Ababa University School of Commerce to accept the project submitted by Meseret Demeke and entitled in partial fulfillment of the requirements for the award of a Master of Arts Degree in Project Management.

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## **LIST OF ACCRONYMS AND ABBREVIATIONS**

<b>AGOA</b>	The African Growth and Opportunity Act
<b>DBE</b>	Development Bank of Ethiopia
<b>FDI</b>	Foreign Direct investment
<b>GTP</b>	Growth & Transformation Plan
<b>MOI</b>	Ministry of investment
<b>COMESA</b>	Common Market for East and South Africa
<b>TIDI</b>	Textile Industry Development Institute
<b>EIC</b>	Ethiopian investment commission
<b>NPL</b>	None performing loan

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## **ABSTRACT**

*This study investigated the determining factors that contribute for project distressed and the measure taken to recover the project from failing. The study aimed at examining factors affecting project performance that related with project distress, investigating the contributed factor from project management and project financier, Identifying rehabilitation mechanisms to reduce the level of distress and enhance project recovery. The study adopted a descriptive research method. The descriptive research design helped in observing the relationship between project management specific factors and prevalence of default on loan recovery ; project financier specific factor and the prevalence of default on loan recovery; external factors and the prevalence of default on loan recovery ; default on loan recovery and project distress. The study utilized the interview to obtain relevant information from Elsi Addis Industrial plc and Development Bank of Ethiopia representatives. The sampling technique used was judgmental sampling technique which endeavors to get an example of components in light of the judgment of the researcher. The data from the interviews were analyzed using a qualitative approach. The study revealed that lack of prudent due diligence assessment , weak project appraisal practice and owners equity requirements, poor communication management , delay on disbursement of the loan , Stringent procedure of the Bank in utilization of loan were from Financer specific whereas the project management specific include factors related with triple constraints connected with cost overrun , schedule delay , scope creep as well as project sponsors ethical issues , and poor communication culture are categorized as project management specific . As external factor Currency fluctuations, Environmental conditions, Customers and Suppliers issues are the most determinant factors for Elsi Addis Industrial project distress. The study concludes that defaulting on loan repayment negatively affects a project successful performance , it is recommended that the management of financier banks should develop strategies to reduce level of default on loan recovery and project distress by performing prudent project sponsors identification on large project credit financing .*

### **Key Words**

Distressed project, Else Addis Industrial Development Plc, Textile industry, Credit financing.

## **CHAPTER ONE: INTRODUCTION**

This chapter begins with background information on the textile and garment industries and ELSI Addis Industrial PLC. The chapter continues to give the questions that need to be answered and the justification or purpose why this study is carried out and specifying the scope of the study. It goes on to give definition of some terminologies used and ends up with a disposition of what will be studied in the subsequent chapters.

### **1.1 Background of Textile and Garment Industry in Ethiopia**

As Ethiopia's developmental progress in the first & second Growth & Transformation Plan (GTP) prioritizes rapid industrialization, the emerging textile and garment industries in Ethiopia are generating new dynamics in the development of the manufacturing sector by attracting foreign direct investment and creating jobs.

As per Ministry of trade and industry declaration, the textile sector is targeted as a key economic activity towards harnessing the growth of the national economy by generating foreign currency. The main objective is maximizing utilization of existing production capacity, increased export earnings, and investment in the sub-sector. Modernizing the sector by attracting foreign investor who has the technology and global market connection is being worked out. (MOI, 2015)

Investors that match the key priority conditions of the government and provide large employment possibilities will be favored by the Ethiopian government just as companies that have a specific skill or expertise that can be conveyed. There is a commitment to support the industry throughout the value chain, thereby ensuring value addition and import substitution of accessories and components. The Ministry of Industry and Ethiopian Textile Industry Development Institute (TIDI) are the focal government bodies which regulate and support the Industry. (EIC, 2015)

The Ethiopian textile and apparel industry has huge potential and has grown an average of 51% over the last 5-6 years. With a key focus on Foreign Direct Investments (FDI) the government is driven to open up their textile and apparel market to middle and large scaled foreign investors.

Retailers like H&M, Primark and Tesco have established offices in 2012 and are buying clothing-finished products- from Ethiopian manufacturers. For smaller scaled textile industry companies the sector however offers large potential as well. Half of Ethiopian textile and apparel companies are SME's of 500-1000 workers that are able to handle small run orders for Dutch and European mid segmented fashion retailers. (Vender pols, 2015)

The economic developments in the textile- and apparel sector show enormous growth in comparison to 2010/ 2011. Yarns export, grey fabric, garments and traditional handloom together totaled an export amount of just over 160 million USD in 2014/2015 compared to 60 million only 5 year before in 2010. Potential for successful industrial backward linkages are illustrated by the fact that Ethiopia has 2, 6 million ha that are suited for cotton cultivation.

At the moment of this total capacity only 5-6% of the cotton is cultivated and used in the forward textile industry. Together with foreign investors this potential is to be tapped the coming years. Since 2004 the Ethiopian government initially has targeted Turkey, India and China as sources of FDI in manufacturing. The country's improved economic performance, expanding domestic market and cheap labor were key attractions for those nations where labor costs went up. The current Growth & Transformation Plans (GTP) published in October 2015 by the Ethiopian government show an increase of possibilities for Dutch and European investors who have a scope for mid scaled manufacturing and are able to transfer expertise through capacity building (Vender pols, 2015).

The African Growth and Opportunity Act (AGOA) encouraged substantially new investments, trade, and job creation in Africa. It has helped to promote Sub-Saharan Africans integration into the multilateral trading system, and a more active role in global trade negotiations. It has also contributed to economic and commercial reforms which make African countries more attractive partners for U.S companies (AGOA, 2016).Ethiopian Textile manufacturers are among beneficiaries from this Act.

Although the importance of the sector for the total economic development of the country is essential, the industry however is still in an "infant" stage and export turnover is limited furthermore FDI textile projects are big sized and needs huge capital investment, in order to fulfill their initial capital most of projects depended on credit financing from government

Banks, among those foreign owned textile project performance of ELSI Addis Industrial PLC will evaluate with this study.

## **1.2 Back ground of Else Addis Industrial P.L.C**

### **Else Addis Industrial Development PLC background**

ELSE Addis Industrial Development PLC is an Integrated Textile Factory , Its Head office is addressed in Addis Ababa , Kirkos Sub-city, Kebele: - 03/05 .

**The Project Address** is Oromia Regional State , East Shoa Zone; Kebele: 05 , It is a Private Limited Company , Licensed by Ethiopian Investment Agency, License No. - EIA-IP 161492/08 , Date issued: 22/12/2008 , Tax Identification Number: 0004967336

Else Addis Industrial Development Plc is established in the year 2006 in accordance with the Commercial Code of Ethiopia by two Turkish shareholders; with a paid up capital of Birr 20,000,000.00. The shareholders are in the textile sector in Turkey for years with strong market linkage in Europe and other countries. The project is established in Oromia National Regional State, East Shoa Zone, Adama Town, and Kebele 05 on 149,651 m<sup>2</sup> land.

Initially, the Investment cost of the project was Birr 447,785,392.00 of which, Birr 281,104,404.00 was covered by the bank and the remaining balance Birr 166,680,988.00 was owner's equity contribution with Debt-Equity ratio of 63% to 37%. The loan and mortgage agreement was signed on June 26, 2009.

The total approved and disbursed long term loan for the project reached Birr 666,221,867. In addition, following the request by the company and based on the mandate given to the Bank by the government for the financing of the annual lint cotton requirements of textile factories, the Bank approved and disbursed special working capital loan for three times amounting to Birr 251,841,311.53, In general, the Bank approved and disbursed a total loan of Birr 918,063,178.53 to the company and out of which, Birr 666,221,867.00 is long term loan and the remaining Birr 251,841,311.53 is special working capital loans.

### **1.3 Problem Statement**

The textile sector is targeted as a key economic activity towards harnessing the growth of the national economy by generating foreign currency, maximizing utilization of existing production capacity, increased export earnings, and investments in the sub-sector. Modernizing the sector by attracting foreign investor who has the technology and global market connection is being worked out. Although Ethiopia is qualified for preferential market access, Common Market for East and South Africa, to manufacture and export products duty and quota free access to the US market, besides market access barriers are removed, vast opportunity of unexploited local market with a huge number of young work forces exists; most of textile projects are not lucrative as they were expected to be. Sustaining and achieving growth in the sector is a real challenge for a number of textile projects in the country.

Ethiopia, as a developing country, is faced with many project performance challenges both technical and financial. Primarily there is a shortage of empirical studies on the success or failure of textile projects in Ethiopia, thus leaving no documentation on the best practices in this field. Secondly, at the same time projects in general have their challenges starting from initiation to successful completion, credit financed textile projects in particular are plagued by a unique set of problems and challenges.

The funding provided by the bank for foreign direct investment projects is so extensive to strengthen countries development agenda, This project financing comes with conditionality's which affect the project from the project appraisal stage throughout the entire project life cycle, in addition to conducts of project managements that focusing to fulfill the sponsors interest rather than achieving a strategic plan of the development need of the country as well as various stakeholders.

Most of the studies conducted in this field were limited on active and successful Textile industries export performance or the sector contribution for national economy. As to the researcher knowledge there is no study focused on distressed projects and the project that going to fail, by investigating the internal and external factors contributed for project failure this paper will attempt to fill the gap and foster research in this important area. This study can help as lessons learned document with troubled projects to use it to avoid future problems.

### **1.3.1 Research Questions:**

The major research questions in this study are:

1. What are the internal factors contributing for textile project distress?
2. What are the external factors contributing for textile project distress?
3. What is the effect of loan recovery performance on textile project distress?

### **1.4 Objective of the Study**

Project distress, whether resulting in total failure or not, has many direct and indirect impact on country's economy, as strategic priority of Ethiopian government, knowing a determinant factors contribute for poor performance of textile projects is The main purpose of this study Specifically, the study pursues the following specific objectives:-

1. To investigate the internal factors contributing for textile project distress.
2. To investigate the external factors contributing for textile project distress.
3. To identify the effect of loan recovery performance on textile project distress.

### **1.5 Significance of the Study**

This study is intended to provide valuable information to project sponsor ,project financiers, government authorities and non-government organizations to identify the factors leading to high prevalence of project distress ,This helps them in revision of static guidelines in the dynamic investment environment.

Therefore, using this specific project as a case study will benefit the project sponsors and financiers by contributing more light on determinant of projects performance, why projects fall short and how this failure negatively impacts on key stakeholders of such projects. This study will also contribute to theories of credit financing to foreign direct investment projects and its effect on county's economy.

### **1.6 Scope & Limitation of the study**

Although there are many distressed projects in the world at large and Ethiopia in particular, this project work will be limited only to the one of the textile projects financed by

Development Bank of Ethiopia, The project mainly focuses on the assessment of determinant factors for textile project distress with considering the case of ELSE Addis Industrial PLC a textile projects background, factors contribute for their performance it includes projects site visit physical observation of the industry. Information was gathered using interviews therefore the results will depend mostly on the outcome of the interviews.

The project also comprises observation of project financing Process, project appraisal and Project Rehabilitation and Loan Recovery practice of the Development Bank of Ethiopia as additional source of knowledge.

Due to absence of the legal sponsors of the project the interview on the project management specific was conducted with the management staff appointed by the bank may considered as the limitation of this study.

## **1.7 Operational definition of terms**

**Project finance:** is the long-term financing of infrastructure and industrial projects based upon the projected cash flows of the project rather than the balance sheets of its sponsors

**Stakeholder:** An individual, group, or organization, who may affect, be affected by, or perceive itself to be affected by a decision, activity, or outcome of a project.

**Textile industry:** is primarily concerned with the design, production and distribution of yarn, cloth and clothing

**Distressed project:** A distressed project is one that is synonymous with overruns in any one or more of these aspects (time, cost, quality, and/or scope) and/or does not meet the specific benefits for which it was undertaken in the first place.

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

**African Growth and Opportunity Act (AGOA)** – The African Growth and Opportunity Act was signed into law on May 18, 2000 as Title 1 of The Trade and Development Act of 2000. AGOA offers tangible incentives for African countries to continue their efforts to open their economies and build free markets

## **1.8 Organization of the paper**

Layout of what will be covered in the subsequent chapters that is, from chapter two to the end.

**Chapter 2** will present the theoretical framework and literature review. That means the theoretical and conceptual context of the study. It will bring out the project management concepts and helps to understanding about existing ideas on the study topic. It will proceed to show how projects success/ failure relate with project appraisal, equity contribution schedule, cost, scope , project sponsors ethical value and prior studies related to this project . Finally, conceptual frame work derived from the literature review included, **Chapter 3** is devoted to the presentation and discussion of the suitable research methodology used in order to perform this research and also describes how the data is collected. In this chapter, I will present and justify why the usage of the chosen strategy, **Chapter 4** presents the empirical findings of the study extracted from the information gotten from the interviews and presents the analytical part of the study in which the information from the interviewees is analyzed in relation to the previous literatures, **Chapter 5** presents conclusions and recommendation based on the findings from the empirical data and theories. It then ends with suggestion on areas of future research.

## **CHAPTER TWO: LITERATURE REVIEW**

This chapter is devoted to a good explanation of the theoretical framework / literature review and developed in a manner so as to give an insight and deep understanding of this work. It starts with a review of the back ground of Textile and Apparel in Ethiopia and ELSI Addis Industrial plc background. Brief story of project management, Due Diligence in Project Finance & Project appraisal , Understanding the Drivers of Success and Failure for Capital Projects & FDI projects in developing country finally The empirical studies in Ethiopia are reviewed. These literatures helps to identify and bring out an explanation about existing ideas on the project topic and concepts which are relevant to see if they are consistent or have any implications on the research area. It also helps the reader to gain an understanding about existing ideas about the subject, concepts and theories which are relevant.

### **2.1 Defining Project and Project Management**

The meanings of project and project management are well documented in project management literature. Different authors and different countries' Body of Knowledge (BoK) have attempted to define or describe project and project management but the literature indicates that they have not reached a consensus.

#### **) Project**

Cleland and King (1983) describe a project as a complex effort to achieve a specific objective within a schedule and budget target and this typically cuts across organizational lines. This task is unique and is normally not repetitive within the organization. Smith (1985) shares similar views and describes a project as a one-time unique endeavor to do something that has not been done that way before. Barnes (1989) defines a project as something which has a beginning and an end. The definitions provided by Cleland and King (1983), Smith (1985) and Barnes (1989) fail to recognize the purpose of embarking on projects and the human resources that are involved in them. This makes the definitions incomprehensible, hence, unable to cover the whole concept of the term 'project'.

On the other hand, Andersen et al. (1987) and Turner (1993, 1999) each provide a more comprehensive definition which covers the whole concept. These definitions do not only make provision for the purpose of projects but also the resources needed for the accomplishment of a

project. Andersen et al. (1987) for instance define a project as a human endeavor which creates change, is limited in time and scope, has mixed goals and objectives, involves a variety of resources and is unique. Turner (1993) defines a project as “an endeavor in which human, material and financial resources are organized in a novel way, to undertake a unique scope of work, of given specification, within constraints of cost and time, so as to achieve beneficial change defined by quantitative and qualitative objectives” (Turner, 1993, p.35). In Turner’s subsequent book, published in 1999, he simply defines a project as “an undertaking to deliver beneficial change” (1999, p.13). In this book, three main characteristics are visible: a project is unique – no project before or after will be exactly the same; it is undertaken using novel processes – no project before or after will use exactly the same approach; and it is transient – it has a beginning and an end (Turner, 1999, p.19). In other words, Turner’s (1999) definition implies that there are fundamental differences that exists across projects, and that no project is similar to another (Soderlund, 2004), or: if different projects have similar characteristics, this does not mean they are same and can be managed in the same way.

## **) Project Management**

Many authors have provided different definitions of the concept of project management. However, to date, these definitions can be grouped into two main areas: (1) those who view project management as a science that follows specific models and management practices, and (2) those who do not view project management as a science that follows specific models and practices.

Taking the first group, Turner (1993), for instance, summarizes project management as the art and science of converting vision into reality. Oisen (1971) describes project management as the application of a collection of tools and techniques such as CPM and matrix organization to direct the use of diverse resources toward the accomplishment of a unique, complex, one-time task within time, cost and quality constraints. Each task requires a particular mix of these tools and techniques structured to fit the task environment and life cycle which is from conception to completion of a task. The British Standard for project management BS6079 (1996) defines project management as planning, monitoring and controlling of all aspects of a project and the motivation of all those involved in it to achieve the project objectives on time and to the specific cost, quality and performance. Kersner (2009) defines project management as planning,

organizing, directing, and controlling of company resources for a relatively short-term objective that has been established to complete specific goals and objectives.

The Association of Project Management (APM) UK describes project management as planning, organizing, and monitoring and control of all aspects of a project and the motivation of all involved to achieve the project objectives safely and within agreed time, cost and performance criteria and the purpose is to manage change. According to the Project Management Institute (PMI, 2008) Guide to the Project Management Body of Knowledge (PMBOK Guide), project management is the application of knowledge, skills and techniques to execute projects effectively and efficiently. It's a strategic competency for organizations, enabling them to tie project results to business goals — and thus, better compete in their markets.

The theoretical foundation upon which this (PMI's) very definition is based has been criticised by Koskela and Howell (2002) as being implicit and obsolete. They further argue that the theoretical bases for its definitions and practices have serious deficiencies, because the understanding of the nature of a project is faulty. This accounts for why there are many models for project management practices, and calls for wider and more powerful theoretical foundations for project management definition and practices (Koskela & Howell, 2002). Despite the flaws in these definitions and the model of practices prescribed by this body, the PMI continues to dominate in project management. This study argues that this is so because there is no *perfect* alternative.

On the other hand, the views of the second group are in sharp contrast to those of the first group. For instance, Hogberg and Adamsson (1983) argue that project management is not an exact science following given laws or established rules. It is rather, a task which is largely based on human relations and the specific knowledge, experiences, character and cultural background of each individual. They cite the differences in culture of America and Scandinavia by comparing their work ethics to back their claims. Whilst the former's work ethics is based on *individualism* – where the individual is seen as a hero, a champion for work well executed – the latter is based on *collectivism*, where group work and achievement is appreciated. Their assertion is drawn from earlier work of Hofstede (1983) that argues that the existing project management models being used by the USA are based on the American culture, and that the widespread of the American project management model over the world is as a result of their lead in development. Hofstede's (1983) work, which studied the mental programming of people

from 53 geographical areas, shows that cultural differences affect the approach needed for successful project management in these countries.

Hofstede (1983) and Hogberg and Adamsson's (1983) view of culture in project management is backed by a relatively recent study conducted by Maumbe et al. (2008) on *Questioning the pace and pathway of the government development in Africa: A case study of South Africa's cape Gateway project*. The study found that governments in Africa are adopting e-government without considering its regional importance. The pace and manner in which the governments of Africa are making copy-cut from the developed world is not compatible with local environments, such as cultural and social class differences, and this partly accounts for e-government project failure in Africa, and South Africa in particular.

It can therefore be argued that defining project management as a science that requires a specific methodology is flawed, given that cultural differences across geographical locations can influence project performance. On the other hand, defining project management without set models, frameworks and management practices because of culture is not enough, in that project managers will not be able to manage projects efficiently without following any set models, frameworks and management practices. Given that neither of the two opposing views about project management is comprehensive enough to apply to this research, the study adapts the two views. Therefore, for this study, project management is defined as the use of management models, tools and practices accepted in the local socio-cultural management practices' context; to plan, organize, direct and co-ordinate an organization's resources to accomplish a task with a defined start and end date to achieve specific goals and objectives.

From the various definitions provided, it can be argued that project management (PM) and project are not the same. However, they share certain common characteristics such as time limitedness, predefined requirement, and the use of resources. Project management can be considered as a subset of project (Munns & Bjeirmi, 1996), in that project management is the means by which the aims of a project are accomplished (Ika, 2009; Young et al., 2012). In other words, project management is a means to an end (the end is the project's goals). The aim of a project is often aligned to long-term strategic goals of the organisation whereas PM is aligned with the short-term goal of delivering the product of the project (Munns & Bjeirmi, 1996; Savolainen et al., 2012).

## **2.2 Due Diligence in Project Finance**

### **) What is Due Diligence in Project Finance?**

In the project finance business, deal origination happens by the direct relationship that relationship managers across different sectors enjoy in the industry. Proposals are presented in the form of appraisal notes put up to either the credit committee or a committee of senior management whichever is the appropriate sanctioning authority. Due diligence in project finance involves thoroughly reviewing all proposals involved in a deal.

An appraisal note ideally contains a write up on the company background, its management and shareholding pattern, its physical and financial performance, purpose of funding details of project being funded, costs involved and means of financing, market for company's products, future prospects and profitability projections, risk analysis and the terms and conditions of sanction.

### **) How is Due Diligence in Project Finance carried out?**

The process of conducting an appraisal involves a comprehensive due diligence of the transaction and preparation of a credit appraisal note. The process consists of the following stages:

- ) Study of promoter background
- ) Assessment of business model
- ) Legal due diligence
- ) Assessment of financial structure
- ) Identification of key risks
- ) Financial statement analysis
- ) Assessment of tax implications
- ) Applicability of Central Bank guidelines
- ) Credit scores/Security valuation/Sectoral expert
- ) Assessment of key terms of the loan

## **Due Diligence in Project Finance – Key Processes**

### **) Study of promoter background**

Study of promoter background is undertaken in order to ensure the commitment of promoters to the project. The main motive is to identify the background and track record of the promoters sponsoring the project. The following terms are assessed:

- ) Assessment of group companies** – needs to be done based on past experience and knowledge of the sector
- ) Assessment of group companies** – Involves in-depth study of various companies promoted by the sponsor. Assessment of group companies is necessary even in cases where no direct support from companies to the project company exist. In case the group is facing a severe financial crunch, the possibility of diversion of funds from the project company cannot be ruled out. In such circumstances, the lenders need to take adequate steps to ring-fence the project revenues.
- ) Track record of sponsors** – In case any subsisting relationship with the sponsor, the track record of the sponsors should be studied in light of its relationship. The lender should identify the incidences of default and analyze the causes for the same.
- ) Management profile of sponsor companies** – Helps in assessing the quality of management. Lenders are typically more comfortable taking exposure in professionally managed companies.
- ) Management structure of project company** – Study of shareholders agreement helps in determining the management structure of a project
- ) Study of shareholders agreement** – Study of the shareholders agreement should be done in order to get clarity on issues such as voting rights of shareholders, representation on the board of directors, veto rights (if any) of shareholders, clauses for protection of minority interest, procedure for issuing shares of the company to the public and the method of resolution of shareholders disputes (CFI, 2017)

## **Assessment of the business model**

An extensive study of the business model enables the lenders in assessing the financial viability of the project. Typically, a business model is developed in consultation with financial and technical consultants. The lenders need to undertake the following steps while accessing a business model:

- J **Understanding the assumptions** – major assumptions involved are regarding revenues, operating expenses, capital expenditures and other general assumptions like working capital and foreign exchange assumptions
- J **Assessment of assumptions** – involves evaluating the various assumptions and benchmarking the same with respect to the industry estimates and various studies. Sometimes the lenders appoint an independent business advisor to validate the assumptions made in the business model.
- J **Analysis of project cost** – One of the most important stages in due diligence, as a substantial amount of capital expenditure has to be incurred. The project cost is then benchmarked to other similar projects implemented in the industry. Also, it needs to be insured that appropriate contingency measures and foreign exchange fluctuation measures have been incorporated into the estimated project cost.
- J **Sensitivity analysis** – A business model involves many estimates and assumptions. Some of these assumptions do not materialize in view of changing business scenarios. Hence, it is important to sensitize the business model to certain key parameters. The lenders need to assess financial viability of the project in light of sensitivity analysis coupled with ratio analysis.
- J **Benchmarking with the industry** – An analysis of the key ratios in light of available industry benchmarks is useful in an overall assessment of the business plan. (CFI,2017 ).

## **Legal due diligence in project finance**

Legal due diligence is usually undertaken by an independent legal counsel appointed by the lenders. This process comprises of the following:

- ) Identifying the rights and liabilities of various project participants
- ) Study of project implementation schedule
- ) Adequacy of liquidated damages and penalty payable on non-performance

## **Assessment of financial structure**

The following aspects need to be considered in order to assess the financial structure:

- ) **Debt equity ratio** – A good project would ideally have a low debt-equity ratio which helps in reducing the cost of the debt thereby increasing the net cash accruals. Higher net cash accruals enable the company to build up sufficient cash reserves for principal repayment and provide a cushion to the lenders.
- ) **Principal repayment schedule** – The lender endeavors to match the principal repayment schedule with the cash flow projections while leaving sufficient cushion in the cash flow projections. One way of safeguarding lenders' interests is to negotiate the creation of a sinking fund for this purpose
- ) **Sinking fund build-up** – Build-up of a sinking fund or Debt Service Reserve Account is usually built up in order to safeguard the lender's interest. Such a fund entails deposit of a certain amount in a designated reserve account which is used towards debt servicing in the event of a shortfall in any year/quarter of the debt repayment period.
- ) **Trust and retention mechanism** – In projects, a trust and retention mechanism is often incorporated in order to safeguard the lenders' interest. The mechanism entails all revenues from the company to be routed to a designated account. The proceeds thus credited to the account are utilized towards payment of various dues in a predefined order of priority. Generally, the following waterfall of payments is established: statutory

payments including tax payments, operating expenditure payments, capital expenditure payments, debt servicing, dividend and other restricted payments. (CFI, 2017).

### **2.3 Project appraisal**

Financial institutions core business entails mobilizing deposits in form of saving and lending to individual and sectors in need of credit to finance their projects or business daily operations. The viability of a financial institution depends on critical selection of projects which have high probability of repayment and reject those with high probability of default (Ssewagudde, 2002). Project appraisal is mostly incorporated in the credit assessment when a project promoter(s) presents an application. According to Omara (2003) project appraisal involves gathering, processing and analyzing quality of information available to establish project viability and reduce chances of default. Matovu and Okumu (1996) as cited by Omara (2003) points out that commercial banks should base project appraisal on the basic principal of feasibility which factors aspects such as financial appraisal, technical appraisal, market appraisal, managerial appraisal among others. If financial institutions doesn't do project appraisal well, its performance will be highly affected (Omara, 2003).

### **2.4 Organizational Ethics to the project performance**

Ethics are result from human nature which constitutes the essential frame of laws in facts; human laws follow the ethics and not simply created by humankind. The word "ethics" symbolize the standards and ideals which embrace a group or a community of people. In Webster dictionary, ethics are defined as disciplined dealing with what is good and bad or with ethical duties and commitments. Ethics refers to worthy and bad attributes, conducts, and intentions in which case it is accompanied with adjectives such as good and bad or nouns such as goodness and badness. Ethics it can be distinctively distinguished from mainstream sciences like mathematics, or natural sciences like chemistry and physics and from this aspect, it is a branch of philosophy analyzed as a norm-based science since it pertains to guiding norms of human behavior (Holden, 2000).

Arnoudov (2012), even though it seems awkward, the ethics is associated with process of work implementation. When the employee in presents to the way of work manners, he is alerted of

the ethics. Working manual make the employee's work beginning easier because they contain ethical directions, rules, norms and value systems that are approved and used in the organizations he works for. Usually the working manuals for the new employees instead of full description of the value system and ethical norms, give one sentence explaining the ethics in the working process.

"The rules or philosophies that define right and wrong conduct" are referring to ethics (Davis and Frederick, 1984). Acar (2012), from the several decades, the significance of ethical values and the commitment of employees are a preoccupation of old and recent studies.

According to (Victor and Cullen, 1988), the changes can be achieved if the ethics start from the management to employees on all the levels. While ethical climate, defined by as a socio-cultural environment, the shared perceptions of what is ethically correct behavior and how ethical issues should be handled. Ethical decisions in the business arena are important because they can have significant implications for business as well as society. (Hartman, 2008), ethic has been a topic of philosophical thought since the dawn of recorded history; certainly the classical Greek philosophers such as Socrates, Plato and Aristotle remain influential in this area of study even today as our society continues to grapple with the same elemental philosophical questions regarding morality and ethics.

## **2.5 Project performance**

Projects are the principal means by which we change our world (Pinto, 2010). According to the Construction Industry Board (CIDB, 1997), measure project performance in the agreed areas and at the agreed intervals, is important to give feedback and the results to the project team. The performance should be measured on a regular basis throughout the project, which helps the team to review progress and 10 identify opportunities for further improvement (Thomas and Thomas, 2005). To compare its own performance with others, the benchmarking allows a project team to learn from best practice (Kelly *et al.*, 2002). According to Cain, (2004), it is difficult for any teams to determine how well they have done and what improvement they need to do without clear measurement of performance against benchmarks.

## J Measurement of project performance

The iron triangle is a former definition of project success as compliance with time, cost and scope requirements (Atkinson, 1999). While evaluating the performance of public or private construction projects, the majority of the researchers associated with construction project management have talked about the significance of time, cost and scope (Zuo *et al.*, 2007). In the mission for widening the project performance evaluation criteria some researchers have argued that it is important to incorporate safety aspects of the project in performance evaluation because the construction industry is the most unsafe industry because of its high rate of fatalities and to the inherent shortcomings of the “iron triangle” criterion (Billy *et al.*, 2006). According to Zuo, (2011), the construction industry is mainly labor intensive and the majority of the workforce working on construction sites is unskilled. The workers are, thus, exposed to risk and health hazards inherent in construction projects that need adequate safety provisions.

According to Lee & Rojas (2014), the earned value management (EVM) concept is one of the most operative ways of monitoring project performance, which integrates considerations for scope, schedule, and cost performance. By tracking and analyzing performance variance in monetary values, EVM provides early warning signs for deviations in actual project performance. Moreover, EVM efficiently forecasts the total project cost or the total activity cost at completion. When measuring schedule performance at the project level, EVM must be implemented carefully because it has the potential of providing misleading information as it does not take schedule criticality into consideration. Nonetheless, EVM does accurately evaluate schedule performance at the activity level.

Toor and Ogunlana (2009), note that by establishing KPIs which offer objective criteria to measure the success of a project performance measurement can be carried out. Atkinson (1999) state that performance measurement in construction project has been dominated by the conventional measures of time, cost, and scope as termed these three measures together as the ‘iron triangle’.

Other researchers suggest that in order to measures of iron triangle, customer satisfaction (Pinto and Slevin, 1988) and overall satisfaction of stakeholders (Bryde, D. J. 2005) should also be measured in performance evaluation criteria. Some have also given the notion of project team’s

ability to manage project risks and resolve problems to evaluate the project success (Belout and Gauvreau, 2004).

According to KPI Working Group (2000), the purpose of the KPIs is to allow measurement of project and organizational performance throughout the construction industry.

### **2.5.1 Project scope**

The required work to create the project deliverables is deal with a project scope. The scope of the project is specific to the work required to complete the project objectives. It is essential for each project to clearly define and document its scope so that the project can move forward in a coordinated manner and requirements can be written. People may start to lose sight of what they are trying to develop and the objectives of information system development can be vague without a well-defined scope . According to (Mirza, 2013), the recent researches have realized that the lack of a clear definition for project and product scope as well as improper control are the factors why project do not achieve much success. Scope, as a measurable concept, has been considered as either a criterion or cause. In fact, a clearly defined goals and objectives of the project scope has been verified as a dimension for project success by some researchers. In order to meet the owner's needs, the rigorous scope is considered to be a factor which is necessary for and thus achieving success (Collins & Baccarini, 2004). Ward (1995), said that all the participants, or stakeholders, who have to make decisions throughout the project must be understood the scope of a project.

### **2.5.2 Project time**

The duration for completing the project is refers to time. Hatush and Skitmore (1997), said that, it is scheduled to allow the building to be used by a date determined by the client's future plans .Related to time is the concept of effectiveness. Alarcon and Ashley (1996), defined effectiveness as a measure of how well the project was implemented or the degree to which targets of time and cost were met from the start-up phase to full production. The time is including as a criterion proposed for project success. According to (Chan, 1997), under the time category, there are three formulae namely construction time, speed of construction and time variation.

### **2.5.3 Project Cost Management and Control**

Cost means expenses incurred by contractor for labor, material, services, utilities etc., plus overheads and contractor's profits. Cost Management is the process by which costs (expenses) incurred on a project are formally identified, approved and paid. Cost control is the deliberations, actions and reactions to project cost fluctuations during a project to maintain the project cost

within the project budget (Olaoluwa, 2013). Cost management is the process of controlling the expenditure on a construction project at all stages from initiation to completion, within the approved budget ( Ibbs, 2002). Cost performance is a measure of efficiency expenses Civil Engineering and Urban Planning: An International Journal (CiVEJ ) Vol.4, No.1, March 2017 spent on project. Cost performance is measured by cost performance index (CPI) which is a measure of the cost efficiency with which the project is being performed. CPI is function of cumulative earned value and cumulative actual cost. Cost management process involves different stages: (i) initial stage, (ii) planning stage (iii) execution stage (iv) controlling stage and (v) completion stage (DoF, 2009).

Project cost management includes the processes required to ensure that the project is completed within the approved budget. There are three fundamental elements in cost management. The cost management includes the processes involved in (i) cost estimating, cost budgeting and cost controlling costs so that the project can be completed within the approved budget (Owens, Burke, Krynovich & Mance, 2009). It also includes resource planning, which includes determining what resources (people, equipment, materials) and what quantities of each should be used to perform project activities (PMBOK, 1996). For this purpose project managers must make sure that their projects are well defined, have accurate time and cost estimates and have a realistic budget involved in approving. Costs are usually measured in monetary units like the national currency such as Dollars, Rupees, and Riyals etc. (Jainendrakumar, 2015).

Cost control is basic to managerial accounting. Schedule control is more recent phenomenon entered into project management concept. Integration of schedule and cost control has been becoming a natural objective of project control systems since late 1970s (Carr, 1990).

#### **2.5.4 Communication**

Studies over the years have proved that effective communication is vital in the project environment it helps to avoid duplication of information, and also provides all the necessary parties involved in the project with relevant, timely information for effective and efficient delivery of the project (Souder et al., 1992).Therefore, failure to communicate effectively prior to and during project implementation is a recipe for disaster.

In the words of Ochieg and Price, internal and external communication is the invisible glue that holds dislocated multicultural project team together (Ochieg & Price, 2010). Therefore, if there is miscommunication, projects are bound to fail (Frese & Sauter, 2003). Frese and Sauter (2003) attribute project failure to four issues: lack of efficient internal communication links, lack of efficient external communication links, lack of responsive decision-making and lack of effective teamwork. The first two reasons are directly linked to communication and the last two are indirectly linked to communication. Thus, the first two involve internal and external communication among various stakeholders of a project whilst the latter two cannot take place without communication. Lack of responsive decision-making and lack of effective teamwork are indirectly associated with communication. There is normally lack of response to decisions if the management involved fails to communicate with their subordinates or superiors appropriately, whilst lack of teamwork normally occurs when team members fail to take part in decision-making or fail to communicate whatever goes on in the team or in the project. Communication is seen as a panacea to project success and lack of it is a recipe for disaster. Lack of good communication can easily turn a corporate strategy or an Information System (IS) project into a modern day Tower of Babel (Frese & Sauter, 2003). This implies that there will be a state of confusion among project team members and other key stakeholders associated with the project and, if this happens, the project is bound to fail.

During the implementation of project(s), there can be schedule, cost and performance alteration, hence, new data on the project, but this alterations mean nothing if the right communication is not carried out among the stakeholders who matter (Bourne, 2009). Bourne (2009) argues that the challenge faced by schedulers and controllers in a project team is communication and not control. The findings of Ochieg and Price (2010) are a confirmation of Bourne's assertions in that effective communication in a cross-cultural team in a multicultural project is the prelude to project success.

## **2.6 Understanding the Drivers of Success and Failure for Capital Projects**

A Guide to the Project Management Body of Knowledge (PMBOK® Guide) (PMI, 1996) defines project management as “the application of knowledge, skills, tools and techniques to project activities in order to meet or exceed stakeholder needs and expectations from a project.” Project

stakeholders are individuals and organizations who are actively involved in the project, or whose interests may be positively or negatively affected as a result of project execution or successful project completion. Both project success components /product success and project management success/ must meet stakeholders' satisfaction where their interests link with these components.

The PMBOK® Guide links stakeholders with project success “The project management team must identify the stakeholders, determine what their needs and expectations are, and then manage and influence those expectations to ensure a successful project.” So stakeholder satisfaction is a crucial part of project success. Tuman (1986) observes that “The days when we could define success in terms of cost, schedule and technical objectives are gone. We must address a much wider range of needs, concerns and issues which are presented to us by a diverse mix of project stakeholders.”

A project where the difference between what is expected and what has been accomplished exceeds the acceptable tolerance limits, inevitably lead to failure.

What are the most frequent causes of failure in capital projects? Further, what factors lead to project success? Understanding the drivers of success and failure for capital projects is valuable because it will enable project teams to avoid costly errors.

### **The Best Projects**

A project was considered to be in the “Best” category if it met all of the following criteria:

- A total cost that was lower than the industry average for similar projects by 10 percent or more
- An execution duration or overall cycle time that was industry average or faster
- Safety performance that included no fatalities, and no serious operational problems during startup or in the first 12 months of operation

### **The Worst Projects**

A project was considered to in the “Worst” category if it met all of the following criteria:

- A total cost that was higher than the industry average for similar projects by 20 percent or more, and

- An execution or cycle time duration that was slower than industry average by 20 percent or more

Having defined both groups, it was observed that, compared with the industry average:

- The Best Projects were, on average, 18 percent lower in cost, 8 percent faster in cycle time (total length of the project) and 10 percent faster in execution.
- The Worst Projects were, on average, 42 percent higher in cost, 49 percent slower in cycle time, and 29 percent slower in execution. *Choma, A. A. & Bhat, S. (2010). Success vs. failure:*

Barnes' Iron Triangle was one of the first attempts to evaluate project success based on time, cost and performance, which were portrayed as interdependent dimensions. Over time, these criteria were expanded and especially criteria taking the satisfaction of stakeholder groups into account are becoming more and more popular. (Matthias, Patric&konrad ,2017 )"Evaluation of project success "

There are many pitfalls that can tackle projects, most project have experience of not completing on time, within estimated budget and seated scope on project planning and scoping process .this case study will focus on some basic factors and challenges of this projects failed to meet its stakeholder interest .

Common Classes of Project Failure are stated as Under estimations & Analysis, Skills Knowledge & competency , Market & strategy , organizational & planning , Leadership & governance , risk , engagement Teamwork ,& communication ,quality ( Ricardo,2007) "How to Rescue Your Project From Its Failure"

### **2.6.1 What Is A Distressed Project?**

Whenever the performance of a project falls outside nominal values, it is judged to be a project in distress. How it got to that state is a question that needs answering. Most important is knowing how to establish an early warning system and prevent a project from becoming distressed. But understand that even the best efforts will not be 100 percent effective, and a project can still become distressed.

There are some general facts about troubled projects:

- Some projects are doomed to fail regardless of recovery attempts
- The chances of failure on any given project may be greater than the chances of success

- Failure can occur in any life cycle phase; success occurs at the end of the project
- Troubled projects do not go from “green” to “red” overnight
- There are early warning signs, but they are often overlooked or misunderstood
- Most companies have a poor understanding of how to manage troubled projects

Not all project managers possess the skills to manage a troubled project not all projects will be successful. Companies that have a very high degree of project success probably are not working on enough projects and certainly are not taking on very much risk. These types of companies eventually become followers rather than leaders. For companies that desire to be leaders, knowledge on how to turn around a failing or troubled project is essential. Projects do not get into trouble overnight. There are early warning signs, but most companies seem to overlook them or misunderstand them. Some companies simply ignore the tell-tale signs and continue on hoping for a miracle. Failure to recognize these signs early can make the cost of downstream corrections a very costly endeavor.

Also, the longer you wait to make the corrections, the more costly the changes become. Some companies perform periodic project health checks. These health checks, even when applied to healthy looking projects, can lead to the discovery that the project may be in trouble even though on the surface the project looks healthy. Outside consultants are often hired for the health checks in order to get an impartial assessment. The consultant rarely takes over the project once the health check is completed, but may have made recommendations for recovery. When a project gets way off track, the cost of recovery is huge and vast or even new resources may be required for corrections. The ultimate goal for recovery is no longer to finish on time, but to finish with reasonable benefits and value for the customer and the stakeholders. The project’s requirements may change during recovery to meet the new goals if they have changed. But regardless of what you do, not all troubled projects can be recovered. Harold, K. (2013)

### 2.6.2 Why projects failed?

“No matter how good the team or how efficient the methodology, if we’re not solving the right problem, the project fails.” Woody Williams

## **Five definitions of Project Failure**

There are at least 5 common definitions of project failure: Anna (2012),

### **1. Judgment Call**

The stakeholders (or some subset of stakeholders) decide if a project is a success or failure. For example, a project board may make this decision as part of project closure activities. In other words, a project is a failure if its stakeholders consider it a failure. This is the most commonly accepted definition of project failure.

### **2. Delivery to Plan**

Any project that fails to meet time, budget and quality targets is considered a failure. This is a relatively strict definition that may lead project managers to pad schedules and budgets with excessive contingency.

### **3. On-time Delivery**

Any project that is late is considered a failure. Organizations in highly competitive, time-to-market driven industries are sometimes tolerant of cost overruns as long as a project meets its target launch date.

### **4. Financial Results Match Projections**

Any project that fails to meet the financial forecasts set out in its business plan is considered a failure. In many ways, this is the most effective definition. It's hard to mark a successful investment as a failure.

### **5. Minimum Return**

The project fails to meet minimum return criteria (e.g. a minimum ROI target). This approach marks a project as successful if it pays back (even if it comes short of the financial forecasts in the business case). Anna M. (2012),

Why project failed? This topic has been discussed by many authors. Academic researchers, such as Bent Flyvbjerg, have focused on project estimates activities. They have identified new explanations, unconventional reasons why projects go over time, over budget, and out of specifications. They found two unconventional causes for project failure: the psychological explanation and the political explanation. Cavarec, Y. (2012).

## **2.7 Costs of FDI projects for developing host countries**

The numerous advantages that FDI conveys to host countries and investors are favorable to development, yet the certainty still remains that there are sure disadvantages within these advantages. These disadvantages, influence nations in shifting degrees and are managed in an unexpected way, contingent upon the nation. In this way governments in developing countries have to be very careful while deciding the magnitude, pattern and conditions of private foreign investment. In addition, FDI may be exceptionally risky for investors as well, due to certain political circumstances that might and can occur in a split second in these developing nations. The investor might all of a sudden discover his investment in vestiges because of political elements; consequently, the political danger variable is dependably a risk to speculation. Political changes might likewise lead to expropriation. The social contrasts and cultural differences that exist between nations possibly a disservice because of the distinctive convictions and belief systems people have, so the investment could end in completely failure due to disagreements that may arise from cultural differences. (Prakash, 2011). FDI can also have negative effects in the environment, economy, human privileges of nationals and so on. Whiles FDI's encourage development in host nations through transfers of technology and improving production, issues over these 'alleged advantages' of FDI have arisen. According to the Dependencia School of Thought (neo-Marxist), foreign investors soak up the local capital of host countries rather than bringing in new resources. They also argue that inappropriate technologies are used by investors in Host countries which should not be the case (Packenham, 1992).

Moreover, some operations headed by MNEs can dislodge domestic enterprises that cannot adapt to the opposition from foreign enterprises, resulting in development decrease for domestic enterprises Jones (1996). Additionally, if legitimate regulation is not set up in the host nation, FDI can serve as a capital flow wellspring of from the developing nations to the developed ones. For instance, because of some particular dangers in the host nation (monetary and political danger), there could be expansive stream of capital from the host nation to the nation of origin if there is no government regulation against such practice. This can have unfavorable impact on

the host economy particularly if such capital is sourced for inside of the host nation. At long last, because of MNEs' higher generation limit (Bora 2002).

Although multinational enterprises may be highly motivated to trans-nationalize, there potential impacts of FDI held by MNEs in developing host countries; however, it is impossible to determine scientifically that all MNCs are collectively harmful or beneficial to all developing countries on a permanent basis. FDI brings indeed, numerous of advantages to global economic growth; however, there costs for FDI in the host countries arise within them. The issue of whether FDI is entirely advantageous to host nations and financial specialists remains a dubious one. There is most likely FDI's give common advantages to both states and the speculators included, these advantages are not consequently acknowledged unless certain conditions have been fulfilled with the goal them should materialize, gatherings need to tread circumspectly to augment the required advantages, particularly with respect to the host country. As expressed before, FDI has ended up being a wellspring of economic growth and development for some nations yet still its negative effects cannot be disregarded. Regardless of whether FDI is useful to host nations and financial investors relies on upon what constructive outcomes they have and regardless of whether these beneficial outcomes exceed to a bigger degree the negative impacts that FDI brings. (Packenham, 1992).

## **2.8 Empirical Literature Review**

A few number of studies have been carried out about the project performance specifically on Textile project with different topics and contexts . This study focuses on examining the determinants factors of the poor performance of textile industries that financed by Development Bank of Ethiopia.

Jemal ( 2008 ) considered Measuring total factor productivity and competitiveness of Ethiopian Textile and garment industries From his analysis, drawn that the growth of the sub-sector is pulled back by total factor productivity growth & failed to compete both in domestic and international market as a result of increasing trends in technical regress, technical and scale inefficiencies as well as cost ineffectiveness. This is, perhaps, a reflection of firm level weakness with mediocre product design, use of backward machineries, limited international exposure and passive reaction to competitive products. Thus, textile and garment firms ought to family work in addressing their weakness and adjust themselves with the challenges of the

changing global environment. Government should also play its supportive role in terms of ensuring fairly competitive domestic market, providing market and technology information, supporting trainings and minimizing transaction costs related to the provision of its services.

Aisha (2017 ) in her study on opportunities and Prospects of Textile Industry in Ethiopia , The Case of Yirgalem Addis Textile Factory PLC This paper examined the challenges, opportunities and prospects related to Yirgalem Addis her finding revealed that the opportunities for the factory are assistance in capacity building, export, tax and investment. Priority is given to the textile and garment sector by the government. By using AGOA opportunities, the factory was able to improve its sales performance in the coming years. However, there are still challenges the factory faces which include inefficient production and an influx of smuggled goods to the market. The factory has a bright prospect if action is taken by the government. on her recommendation To benefit from the opportunities, and overcome its challenge, Yirgalem Addis Textile Factory should undertake the following measures: influence the government to revise its policy on excise tax, and control smuggling goods; making additional expansion program to increase its production capacity; Additional investment is required to modernize and further increase its production capacity; and enhance human resource capacity through training and working capital.

Daniel (2016). The findings further indicate that, the availability of raw material, skilled labor force, shortage of capital, absence of marketing personal and infrastructure being the most critical factors impeding garment industries engaged in export. Based on findings, recommendations to government bodies, to operators of garment industry sector and suggestions for other researchers are forwarded. As a final point, the most critical and severe factor among all factors mentioned above is found to be the external factor. This is depicted by raw material as a factor. Since it is out of control by the sector in such a way that there is lack of adequate supply and quality of locally produced raw materials, it would be unthinkable to take corrective measures in the near future. Hence, this factor would aggravate the severity of the export performance of garment industry by affecting the other factors to remain as impeding factors of the sector. However, the least severe ones such as Government regulation and incentives, Institution and industry relations and technology becomes less attention seekers in the industry though the industry should leverage and optimally utilize them for enhancing the export performance of the sector through complementing the most severe factors.

Fantaw( 2016). In his study of Determinants of loan repayment performance of garment

Manufacturing factories, evaluated thirty five garment manufacturing credit borrowers of DBE, which encompass the total population of the study. It is found that educational level of the borrowers, number of follow up conducted by the bank , Market demand level of the borrower factory product and loan utilization determine successful loan repayment performance of the borrowers positively and significantly. Other variables such as, other source of income, problems related to infrastructure and capital adequacy have positive sign, but are not statistically significant. On the other hand related experience show negative sign, and not statistically significant. The analysis of partial marginal effect shows that proper loan utilization of the credit borrowers is, the first, the level of Market demand level of the garment manufacturing credit borrower product, the second, the education level of the borrowers and Follow-up/supervisory visits by the bank are the third and the fourth important factors affecting the loan repayment performance of the garment manufacturing credit borrowers of the Bank.

Most of the studies conducted were limited on active and successful Textile industries export performance or the sector contribution for national economy. As to my knowledge I didn't found the study focused on distressed projects and the project that going to fail, by investigating the internal and external factors contributed for project failure this paper will attempt to fill the gap and foster research in this important area.

A number of factors can be identified from the literature their value or significance in terms of how and why they are perceived to influence project performance may be different.

From these different literatures various variables of which will determine the project performances are identified. Among which the major variables are chosen based on general project success and failure.

## **2.9 Textile and Apparel in Ethiopia**

It was in the early twentieth century that Ethiopia's cotton sector, and consequently the T & C sector, began to grow on a commercial scale. The Italians introduced the first garment factory in 1939, as well as the first modern, integrated textile mill. The sector continued to expand in line with the growing cotton production, and the 1960s saw the establishment of five large, private, integrated textile enterprises. While the socialist Government ( 1974 to 1991 ) nationalized textile and apparel companies, it also established additional enterprises to fulfill domestic demand. Nonetheless, the sector eventually suffered under this regime : the lack of competition, limited investment, and reliance on outdated technology eventually left the T & C sector significantly

handicapped. Indeed, it was unable to meet international standards and was operating well below capacity.

Since the return to a market economy in 1991, the Government has identified the T & C sector as a priority for poverty reduction and economic development, given its labour intensity. From 2000 onward, the Government began to privatize state cotton farms and ginneries and to sell or lease state textile mills. However, it is only in the last few years that the sector has truly started to grow according to its potential. As production costs in Asia continue to rise and Western buyers become more interested in ensuring ethical working conditions, a number of sourcing companies have turned away from Asia and towards Africa. Brands including H&M, Tesco and Primark have all begun to source from Ethiopia over the last few years as they seek to increase control of the entire supply chain from cotton to garment. They are drawn not only by low labour costs but also by the availability of raw materials and by the geographical proximity ; Europe can be reached easily via the Suez Canal, reducing delivery times by a third when compared with the Far East. In addition, many companies are drawn to the perceived social responsibility of the sector in Ethiopia ; Ethiopian labour laws conform to International Labour Organization standards.

Nowhere is Ethiopia's potential more evident than in trade statistics since the turn of the century. Over the last decade, T & C exports have grown by a CAGR of 26 %, reaching US \$ 82 million in 2014. During the same period, T & C subsector exports grew by CAGRs of 37 % and 19 % respectively. ETIDI( 2014 ).

### **2.9.1 Current status of medium and large level Textile Industries**

Textile Products contributed 1.6% to the GDP (nominal) and accounted 12.4% of the Industrial output by value terms in 2010. Annual Production capacity of Textile and Apparel Industry is 102 thousand tons of yarn , 207 million meter woven fabric , 50 million kg of knitted fabric , 63 million pcs of knitted garment and ,28 million pcs of woven garment , Employed more than 48,000 workers , For the last eight years, the export performance of the sector has show an increasing trend, on average 50% per annum.

The Ethiopian Government continues to actively engage with the T & C sector as part of its Industrial Development Strategy, with the ultimate goal of attracting investors and enhancing competitiveness in international markets. To this end, the Ethiopian Textile Industry Development

Institute ( ETIDI ) was established by the Council of Ministers in 2010. In order to assist the sector in reaching the goals set by the Government five-year Growth and Transformation Plan ( GTP ) ( increase textile exports to US \$ 1 billion by the end of 2015 ), ETIDI is mandated to provide investment promotion, training and consulting services ; engage in research and development ; and provide various testing and marketing support services. As such, it has become the focal point for activity in the sector and the main provider of support services.

Together with Government support, Ethiopia's competitive advantages have allowed the sector to successfully attract key foreign investors and buyers including Asda, H&M, Primark, Phillips Van Heusen, Tchibo, Tesco, Marks & Spencer, VF Corporation, and Inditex. These advantages include:

- J Low labor costs ( for skilled and unskilled workers )
- J Large and trainable workforce
- J Accessible and sustainable hydraulic energy
- J Lowest electricity costs in Africa
- J Relative proximity to Europe
- J Preferential market access ( AGOA, Everything But Arms, Common Market for East and South Africa ( COMESA ) and soon the tripartite agreement for a Free Trade Area between COMESA, the East African Community ( EAC ) and the South African Development Community ( SADC ), and improved access to South Africa )
- J Significant state support / incentive programs
- J Availability of quality raw materials
- J Political stability and macroeconomic growth.

### **2.9.2 Foundations for Growth**

The sector produces a full range of products, from natural and man-made yarns, fiber, threads and textiles, to various garments, carpets and home textiles. Annual production is estimated to include 102,000 tons of yarn, 207 million meters of woven fabric, 50 million kg of knitted fabric, 63 million pieces of knitted garments, and 28 million pieces of woven garments. T & C production occurs in all regions of Ethiopia, although particular concentrations can be found in Oromia, Addis Ababa and, to a lesser extent, Amhara.

The sector is an important source of income that provides employment for over 450,000 people ( 2013 ), up more than 200 % from 2010 / 11. The majority ( 416,913 employees ) are employed by the textile segment. It should be noted that textile employment is predominantly rural ( 64 % of employees ) and female ( 60 % ), whereas apparel is more urban ( 82 % of employees work in urban areas ) and male ( only 27 % of employees are female ).

Large firms ( those with 50 or more employees ) constitute 78 % of companies in the textiles segment ( 2010 / The size of apparel firms is more varied, and they include 17 large, 16 medium ( 20-49 employees ), and 7 small ( 10-19 employees ) enterprises. Even so, large firms account for the majority of employment in both segments: 98 % of employment in the textile segment and 92 % of employment in the apparel segment.

Although Ethiopia has made great progress in increasing its production capacities, it has yet to reach a level of output that will allow it to play a major role in world markets. Productivity must be increased through capital upgrades and skills development, stimulated by FDI and its accompanying spillover effects. Efforts must also be made to increase value addition through product development and diversification. These improvements will all lead to greater income and employment generation, solidifying the sector's role as a driver of sustainable economic development in Ethiopia.

### **2.9.3 Value Chain Integration**

Ethiopia's T & C sector is characterized by strong value addition throughout the entire value chain, from cotton to clothing, with high local processing of cotton lint into textile and apparel products. The sector currently counts over 130 active enterprises that cover the entire value chain, including ginning, spinning, weaving / knitting, dyeing and printing, home textiles, and knitted / woven garment production. The sector's enterprises range from those with only a handful of employees to those employing over 6,000 workers. The majority of enterprises are privately owned, although there are two state-owned integrated textile mills and a number of joint ventures between the state and foreign investors.

Foreign investors have contributed significantly to growth in recent years and are expected to be the drivers of growth in an Ethiopian garment boom. Figure 3 shows that foreign firms dominate the design and sewing segment. Not only are foreign projects more numerous, they are larger on average, better endowed technically and better connected to international markets.

As foreign investors drive high growth in Ethiopia's garment production and exports, a major challenge to sector stakeholders will be ensuring that that growth is well-linked to other segments, translating into an evolution of the value chain as a whole. (*Ethiopia, textile and clothing value chain roadmap 2016-2020*)

Despite its importance for industrialization, the Ethiopian textile and garment sub-sector has not shown encouraging sign both in terms of productivity and competitiveness. the level of total factor productivity and competitiveness capacity of the sub-sector is not good. On average, technical progress, technical efficiency and scale efficiency (economies of scale) declined by -34%, -25% and -1.3% per annum over the study period, respectively. The negative change of these efficiencies resulted in negative total factor productivity growth. So, the contribution of total factor productivity to output growth is found -60.3% per annum. With regard to competitive capacity, all the four digit groups of manufacturing activities in the sub-sector prove to be uncompetitive even in the domestic market. Jemal (2008)

## **CHAPTER THREE: RESEARCH METHODOLOGY**

This chapter is devoted to the presentation and discussion of the suitable research method used to achieve the purpose of this research. It starts by giving reasons why this subject choice. So, after going through this chapter any reader will understand why the choice of the methodological approach I used. It contains the perspective and preconceptions, and goes on to give the different approaches used for making a scientific research identifying on the approaches which are relevant. Credibility is included but excluding reliability and validity (which are not really truth criteria in a qualitative study). The chapter draws the curtain on the data collection methods.

### **3.1 Research Design**

Saunders et al. (2012) classify research studies into three types – Exploratory Studies, Descriptive Studies, and Explanatory Studies. The particular type followed in a piece of research is determined by the research questions being skewed (Saunders et al., 2012). Thus, it is the research questions that shape the type of research to follow.

The research design for this study was the descriptive survey method , A descriptive research design is used to attain information regarding the current state of the phenomena and to describe ‘what exists’ with respect to variables or conditions in a situation (Anastas, 1999). It answers questions of who, what, when, where, and how associated with a particular research problem, and this helps to gain an “accurate profile of events, person or situations” (Saunders et al., 2012, p.171). Based on the explanation on Saunders et al.’s (2012) this research uses descriptive survey method to answer the research aims.

### **3.2 Research Approach**

The two basic research approaches are quantitative and qualitative research. Both types have different purposes.

Quantitative research is statistics-based. It involves questions that can best be answered in numbers. To get the statistics, researchers often conduct experiments or give surveys. They then analyze the numbers with statistical models to see what the data tells them. Quantitative research

often translates into the use of statistical analysis to make the connection between what is known and what can be learned by research. Consequently, analysing data with quantitative strategies requires an understanding of the relationships among variables by either descriptive or inferential statistics. Descriptive statistics helps to draw inferences about populations and to estimate the parameters (Trochim 2000).

Qualitative research is description-based. Qualitative researchers observe and interview people. They take observations of people or events and analyze it through qualitative methods. They look for trends, just as quantitative researchers do with statistics, but they don't use numbers to find them. It places great emphasis on the methods used to collect or generate data. However, it places less emphasis on the analytical techniques to interpretation of data. Furthermore Inductive approach primarily uses detailed reading of secondary data to derive concepts, themes, and models. Therefore, it is widely used for analysing qualitative data (Jebreen 2012).

The researcher chose to use the qualitative research method because the research only use a connection between theory and the study and no measurement will be done. This method will help to fulfill the purpose and have good answers to the research questions. It also ties up well with the research approach chosen. From the theory, The researcher will have to interview the authorities concerned from the financier Bank and the project under observation and then compare their responses to theory.

While secondary data gathered from multiple sources mainly through review of the DBE working documents and individual file of projects from Credit Process and by consulting and reviewing different documents of the Bank including annual and quarter performance reports were collected to provide the explanatory analysis of the research questions. Additionally project office archive and various sectorial publications examined.

### **3.3 Data collection methods**

Data collection method is a phrase used to describe the way or manner in which a researcher gathers relevant information which he or she is going to use to answer the research questions. There are basically two main sources by which the researcher can collect data; the primary and secondary source. Primary data source is when the researcher collects new information either through observations, interviews, questionnaires and then uses this data for analysis (Saunders et al. 2000, p. 188.) Secondary data on the

other hand is when the research uses data that was previously collected maybe for another purpose, used and stored (Hakim, 1982, cited by Saunders et al., 2000, p. 188- 190).

The data collection method used for this research work was from both sources i.e. primary and secondary. The researcher started by using secondary sources like the DBE data base, including annual and quarter performance reports where I read information related to my topic and research question. My primary source was face to face interview with the use of a phone recorder the interviews took place in the offices of the interviewee. I interviewed those holding the posts concerned so that the answers will be in line with what they put into practice when carrying out their day to day activities related with projects with credit financing and project management because they are professionals in the field with enough experiences. I was aiming to have two more interviewees from both parts but despite all my efforts for contacts, only two of them gave me the opportunity. I saw these two to be suitable for my work because the interviewees are professionals and have had experience in their field their responses will be enough for me to get my conclusions.

### **3.4 Method of data analysis**

There are basically two types of research approaches to data analysis namely the inductive and deductive (Saunders et al, p. 85). The researcher has to choose the best way of how to go about the research to get the required knowledge. The researcher has chosen to use the inductive approach because it is suitable for the purpose since the study use a qualitative data. This is because in an inductive method, there is no strength of relationship between reasons and conclusion as is with deduction (Cooper & Emory, 1995, p. 26-27). To induce is to draw a conclusion from one or more particular facts or piece of evidence. To get the facts or perceptions from the bank experts and project sponsors the researcher use face-to face interviews, the data from the interviews and the documents were analyzed using a qualitative approach. Specifically, The inductive approach, The purposes for using an inductive approach are to (1) to condense extensive and varied raw text data into a brief summary format; (2) to establish clear links between the research objectives and the summary findings derived from the raw data and (3) to develop of model or theory about the underlying structure of experiences or processes which are evident in the raw data.

The inductive approach reflects frequently reported patterns used in qualitative data analysis most inductive studies report a model that has between three and eight main categories in the

findings. The inductive approach provides a convenient and efficient way of analyzing qualitative data for many research purposes.

The perception of different persons is always different even if they are faced with answering the same questions. In the course of responding to a question, other important questions may be answered giving more clarification on the topic. In an inductive approach, the conclusion explains the facts and the facts support the conclusion. Based on this, my conclusions will only be based on the facts I get from my interviews which may not be true, valid or agree with the real world as implied by a deductive approach.

## **CHAPTER FOUR: ANALYSIS OF FINDINGS**

The empirical framework consists of one respondent working in DBE Head office Project Rehabilitation and Loan Recovery Directorate and one respondent from Else Addis Industrial plc transitional project management. These interviewees have been chosen based on their job positions and experience qualifying them to give appropriate answers to the interview questions. The researcher structured the interview guide into the following sub headings; general questions, project financier specific factor contributed for project distress, Project sponsors specific factors contribute for project distressed and external factor contribute for project distress. This chapter will present findings in such a way so as to facilitate reading for the reader. Respondent A, used as a synonyms for DBE respondent whereas respondent B is used as synonyms to the Else Addis Industrial plc respondent. The responses will be given as reported speech (using the exact words of the respondent) and in some cases using his, her, us, we and they which all refer to the bank and the project since their work is done using the respective companies policy guidelines.

### **4.1. Financer specific factors**

#### **4.1.1 General question respondent background**

This part of the interview is focused on the respondent position in the bank and the project, working experience and their educational qualification. The researcher choice of respondents was based on experience both in theory and practice in the field particularly with knowledge in project appraisal and loan follow-up area as well as project management. In order to get the respondent , The researcher first forward the topic to the bank pleading to them that the interviewee to be an expert who has experience in project financing if possible a person with ample experience on project recovery and rehabilitation work according with the request the bank was willing to assign one interviewee from the bank project rehabilitation department and one interviewee from the project transitional management with specified background. The researcher asked the respondents general questions to have a better knowledge of who they are and their experience in the related project financing and project management.

Respondent A said she is a holder of Masters Degree in Economics and has a working experience of 30 years. In her career path, she started working as the Loan officer for the then Agricultural and Industrial Development Bank of Ethiopia. Passing through different positions at different branches of the bank at the current time she is working as Project Rehabilitation and Loan Recovery Directorate Director Level.

### **4.1.2 General question/ Textile projects loan recovery performance**

In this section of the question The researcher focused on knowing the current states of the overall textile project financed by the bank and specifically the position of Else Addis Industrial the project under observation.

Respondent A said that to give a general picture at the current time from the total NPL of the bank 70% NPL is from manufacturing industry from this number 80% of it NPL of textile projects this indicates that bank financed high volume to textile projects at the same time poor loan recovery performance also high in textile projects. The respondent add that Else Addis Industrial are among these defaulters and the company currently managed by transitional going concern management which controlled by the bank. Although dealing with this kind of activity not the mandate of the bank in order to minimize the massive social and economical disturbance the government decided to remain in the bank's control till interested investor find to take over .

### **4.1.3 Project appraisal attribute**

In this section of my interview, The researcher want to know about the process of conducting an appraisal involves a comprehensive due diligence of the transaction and preparation of a credit appraisal note. Study of promoter background Assessment and Legal due diligence of the company moreover bank's project appraisal work which has direct relation with project planning and scoping process the main question was specially what was the actual project appraisal assessment result of Else Addis Industrial plc and the due diligence assessment of project sponsors .

Respondent A explained that their bank as its standard for any loan from any sector of the economy depending on the lender Loan request and market study , project appraisal work should performed no any other way to approve the loan , regarding the due diligence assessment the respondent hesitated and said although this assessment performed using world bank due diligence assessment format it was subject to various limitation no guarantied mechanism to verify the Information provided by applicants , first the background check of the sponsors are highly dependent on the feedback of their country's chamber of commerce and foreign affair directorate which has no other way to affirm the reliability of the information ,Second in order to attract foreign investors our country's investment policy creates highly protective environment for foreign companies which directly or indirectly limit the bank experts free judgments to apply strict

evaluation on sponsors background check and the value , quality , and capacity of equity contribution in kind .

Respondent A added that regarding project appraisal of Else Addis Industrial profitability of the project is one of the major criteria used to evaluate project viability. Profitability of a project can be measured by ROCE. Return on capital employed is a measure of return on an investment where annual profit before tax is expressed as percentage of the capital sum invested.

ROCE = annual profit before tax / initial or average capital investment. It is used to specify the impact of the project on a company's profit and loss account. Based on initial investment bases:

ROCE = Average Profit before tax total= (169,486,857)

(New investment + book value of existing fixed assets)=881,297,999 ROCE = 19.21%

This implies that the project under this option is profitable in its project life. As textile is the very complex industry and the industry international standard of profitability is around 7-8%. The project is feasible when compared against the international standard.

Payback period simply measures the time required to pay back the project investment. The shorter the payback period, the lesser the risk of investment. It ignores however the overall profitability of a project by ignoring cash flows after pay back reaches. This project will pay back its costs of investment within 3.83 years. It is ahead of the expected 15 years of project life time.

Discounted cash flow analysis is a technique whereby the value of future cash flows is discounted back to the present value, so that the monetary value of all cash flows are equivalent, regardless of the timing. The logic for discounting is that the value of money declines over time because of individual time preference and the impact of inflation in eroding spending power. Net present value and internal rate of return are discounted cash flows techniques, which are the best methods of project appraisal.

#### **a- Net Present Value**

The net present value of the project is Positive Br 115 million therefore the project is financially feasible.

#### **b- Internal Rate of Return**

IRR of the project is 16%. IRR greater than the estimated cost of capital 10% and therefore the project is financially feasible.

The break-even analysis aims at establishing a point where the project neither makes a profit nor incur a loss. The break-even points are computed and it is come out to 76%, hence, this project has tight break-even point needs to have efficient production and assigned proper product mix for better profit.

As the factory is capital intensive, the project is expected to guarantee job securities for about 872 employees. Assuming that each employee having an average of five family members under each more than 4360 people are directly relying on the existence of the company. it is reliable, will be more productive and because of the value additions it will be more profitable ; The company has & will have a great role to strengthen social responsibility. ;The factory absorbs a substantial quantity of cotton as raw material, and supplies its products to the local market. In these scenarios, it is believed that it will play a vital role in linking backward and forward linkages with cotton producers and spinning factories and garment factories too; The project is assumed to satisfy a substantial share of the country's demand for textile products, to substitute a significant portion of imports of the same products and exporting to generate foreign exchange ; Apart from foreign exchange earnings, the project will contribute additional cumulative income tax of birr 36.5 million and more annually.

In general, in the entire project appraisal methods shows that the project was financially, socially and economically feasible.

#### **4.1.4 Owners equity attribute**

In this part of the interview the researcher stress on the project sponsors equity related with project performance. The project sponsors financial capacity to contribute on due time and to cover miscellaneous running expenses respondent A said the textile projects are strategic priority of Ethiopian government foreign direct investment policy , unlike other project and business financing special consideration and priority is given for this projects , the equity contribution ratio is 67% to 33% major part of project investment capital is covered by the bank from sponsors equity contribution most part of contribution was covered by contribution in kind and value of machineries recorded depending on the machinery price estimated by project sponsors , considerable number of these machines was not functional due to its old age and out dated technology in order to cover this problem the bank forced to buy new machineries to replace the dysfunctional machines imported as owners equity .

#### **4.1.5 Project monitoring and control attribute**

In this interview question The researcher asked the respondent A about bank's expert follow up the project , technical ability of the bank's officers to advice and assist project management on their technological issues, the project Monitoring practice the routine information collection and analysis of the data collected follow progress against sited plans and check compliance to established standards. respondent A said scheduled and surprise project performance supervision as well as follow up of the loan utilization had been performed, the follow up work included comparing the project implementation with planed schedule with estimated cost and required quality , periodical follow up report as well as reports from unscheduled project visits intensely examined by concerned department and depending on these report the subsequent money release decided , the corrective measure advised and unreserved support was given at any time the project need it. Regarding technical ability of our experts due technological sophistication valuable technological advice may not sufficient enough

#### **4.1.6 Performance attributes**

##### **) Project schedule**

In this section of the work, the researcher try to know from the respondents if the bank realized the budget approved on due time and the degree of flexibility on utilization of the released fund as to the project completed on scheduled time if there was delay behind the schedule what was the main problem encountered

Respondent A said the main objective of the bank is to finance the project in line with the agreement made between the bank and the project management, depending on the follow-up report by the bank experts, the money was released on time any delay or schedule lagging due to the bank reason not encountered this answer not include the problem encountered by project sponsor equity contribution shortage and delay. She added about project lagging time on its construction stage is due to factors other than our bank's scope. As to flexibility on loan utilization our bank strictly followed the loan utilization according with the budget line approved on agreed and signed contract any expenditure other than approved cost center should have additional loan reallocation agreement, utilizing the money other than the intended objective is one of the area the bank didn't compromised on .

## ) **Project cost**

One of the main factor for project performance is utilizing the approved budget in line with the planned cost center in this question the researcher asked the respondent the cost effectiveness of the project .

Respondent A said the major problem encountered in this project was cost overrun , the project management was decided to establish the cotton farm ( Omo Valley corporation ) believing that it's the solution for the problem arise connecting with cotton supply shortage and quality issue , the basic idea was not a problem the problem was the management divert most of the money budgeted for textile project to this new project without bank approval and consent this situation created financial burden on textile project various expenses including owners contribution of this newly established company was covered from the textile project capital , Management mixes with Omo Valley create additional expenses which was not planned

## ) **Project scope**

The other indicator of project performance is project implementation according with scope definition in this part of the study the researcher tried to look into project scope definition and actual execution The respondent A. Said the project management involving with unplanned activity by establishing Omo valley corporation, engaging in construction business by earth moving equipment imported for textile project construction work was the scope creep of the project

### **4.1.7 Communication management attributes**

In this part of the interview the researcher asked the respondent what was their communication management? Was there proper communication links between the bank and the project management? If not the case what was the reason behind and the effect on the relation of both parties.

Respondent A replied that the communication between the bank and the project sponsors was poor they are not willing to listen and cooperate each other flexibility and understanding was missed from their relationship further more communication was totally blocked from the project sponsors side.

#### **4.1.8 Project management Ethics**

In this part of the interview the researcher intention was to find out the role of project sponsors ethical conduct to the performance of the project . Respondent A said the project sponsors behavior was the most difficult issue over all the project life they started manipulating the system by including nonfunctional machineries as owners equity contribution , involving themselves with different business activities without legal permit , keeping two accounting records both in English and Turkish language with different financial position of the project , creating conflict of interest by dealing with one company both for selling the product and buying the raw materials , loan diversion to unintended activities , exporting the product with low price and importing raw materials and various spare parts with extremely high price that creates unfavorable trade balance by withholding the proceed from export and many other miss conducts. These mischievous behaviors end up by disappearance from the project and the country.

#### **4.1.9 Remedial action taken**

In this section the researcher addressed what the respondents might think to be the cause of defaults, if the project appraisal work justify the project is visible in all terms, what was the reason of deviations between the plan and actual outcome of the project and what was the remedial action taken by the bank and the result of the action on the project performance.

respondent A said she want to make clear that this project failure was not emanate from poor production performance or poor sales performance for example the production performance of the project at the time of final assessment May 2016 was meet its target in all different production line , its sales performance was 74% of targeted amount it was ranked satisfactory performance , the main problem was aroused from project sponsors mischievous behavior which manifested by Exporting to a single buyer; namely “ Else Elektrik Makina Sanayi ve Tic. A.S. ” and purchasing inputs from a single supplier; namely “ Else Elektrik Makina Sanayi ve Tic. A.S.” ; this is taken to be away of repatriating foreign currency unnoticeably. The other major problem was unfavorable trade balance more than 50% of foreign currency paid for imported input and expatriates remuneration , The Company has incurred losses for consecutive reporting years due to global cost escalation of raw material & Paying the expenses of another Company, there were many other factors ,shortage of project sponsors cash contribution, importing dismantled & defective machinery as owners contribution ,overlooked and missed investment items like A/C system, firefighting & compressed air system, additional accessories, Management mixes with Omo Valley Cooperation, Unwillingness to

settle the due loan and service the debt, it rather under took unplanned expenses; these and other unmentioned problems led the company to its distressed position.

For the question about remedial action taken by the bank respondent A explain that they took various measures at different level of the project and that includes to cover the cost escalation encountered due to foreign currency and overlooked investment particulars, the Bank, sanctioned additional loans two time for completion of the project implementation and smooth operation , Budget rearrangement and Reallocation has been repeatedly made as per the requirement of the project with the due approval of the management and board as deemed necessary, the precondition of blocking pre-operating interest of was waived by the approval of the Management of the Bank, the Management of the Bank has waived the condition of settling the due interest and the company is allowed to pay only the interest with extended time, Principal loan rescheduling was approved by the bank so as to run the project smoothly. However, due to the fact that the company could not settle the interest arrears, the rescheduling process is cancelled. The bank has assigned controlling staffs to help the company by which availing the right information and the ongoing facts and activities by the company to the executive management. With all the effort not fruitful the bank tried to settle the debt using various mechanisms including

Increasing the rate of deduction from each export proceed from 30% to 50%, and channel it for the loan repayment , Requesting the cooperation of Commercial Bank of Ethiopia to collect 30% proceed from every deposit the PLC makes at the Bank, The borrower was instructed to apply bonded factory warehouse system in consultation with the concerned government organs, The company was requested to give its consent, in writing, to authorize the bank to exercise enhanced control over every transaction that it makes with others Banks, input suppliers and foreign buyers etc, and On top of serving reminders, frequent discussions were made with PLC management to make up the missed repayments.

All mentioned efforts have not been fruitful. Though the Bank determined to collect 50% of export proceed, it has been found not sufficient enough to prove out the turnaround of the project by clearing the huge and long overdue arrears. Beside, the PLC sells significant portion of its products in a local market.

## **4.2 Project management specific factors**

### **4.2.1 General question / respondent background**

In the empirical framework the second respondent was selected from the Else Addis Industrial plc in order for collect valuable information to replay the questions of this study.

In this part of the interview the researcher ask the respondent general questions about his educational and career background and what is his position at the current time respondent B said he is the transition period manger of Else Addis Industrial PLC. He is a holder of Masters degree in Business Administration and has a working experience of twenty years on various projects and industries .

### **4.2.2 General question / Project status**

In this part of the interview the researcher need to know what was the overall project status at the current time respondent B said the project has experienced a case of default on loan recovery which set the project under distressed category , the project sponsors left the country abounded the company ,at the current time the project is running under going concern management by control of Development bank of Ethiopia until foreclosure process concluded .

### **4.2.3 Project performance attribute**

In this part of the work the researcher focused on knowing why the project failed to meet its objective as per the business plan submitted for the bank's project appraisal the researcher need the respondent to answer the question from Cost, Schedule, Scope point of view . Respondent B said he was not on the position at the time of project planning scoping as well as execution , he hired and assigned by the bank as transition period manager after the project considered distressed and his assignment was part of the strategy for recovery . the respondent added he tried to answer my question based on the information gathered from project files , correspondences with different stakeholders , different types of reports in addition to his personal opinion and judgments saying this the respondent explained the failure of the project is the result of various internal and external factor those are:

**Schedule delay** at the beginning the project implementation didn't start as per the scheduled time the reason for delay are both External and internal factors from the external factors the failure of

the municipality to transfer the land on time. Though all the required payments were made by the project on time, the city administration failed to transfer peasants on time and handed over the land very late. The other reason of delay was again the municipality of adman town was not willing to register the loan due to various technical reasons. Moreover at that time the bridge adjacent to the company was not made & material and equipment mobilization for site construction was very difficult that took considerable time from planned schedule;

after all the delay and obstacles the site handed over & construction work began a dispute between the project management and the local sub-contractor hired to carry out sub-structure works was one of the additional factors for more delay, the point of disagreement was the limited capacity of the contractor as compared to the bulkiness of the civil works leading to sluggish implementation progress, further more at the same stage of project implementation the sight was seriously hampered by the heavy flood that covered the site during rainy season. Particularly, the civil and construction work was highly affected as it was difficult to perform activities like excavation on planned time all the above mentioned problem significantly lag the project schedule .

After project site and factory house construction and machine erection process it was found out that some critical components and parts were missing and some items related to A/C system were requiring new purchase this also create additional schedule delay.

The respondent B added that The other case of schedule delay was the Bank's loan processing cycle from the beginning to every subsequent disbursements each time the bank took very long time to release the money the stringent procedures, bureaucratic environment of the bank was the significant point of project delay as per the respondent opinion all the above mentioned problems are the factor for schedule delaines.

Regarding **project Cost** of the project the respondent mentioned the chain effect of project schedule delay forced the project management to pay unplanned amount of money for administrative expenses, labour , utilities as well as high amount of accumulated interest overdue , many unforeseen expenses had immerged as the project going on these and other factors contribute for project cost overrun . Initially a project was planned to establish one textile manufacturing industry with **defined scope** budget and specific time after project arrived at closing stage and transferred to normal operation various challenges raised one of the main problem identified was lack of raw material specially quality cotton for export standard fabrics , in order to overcome this

problem the project management decided to establish a cotton farm around OMO valley lot of effort and money exerted but the bank was not supported the idea of sharing the ELSI Industrial resource reasoning that it's out of the project's scope .

#### **4.2.4 Operational challenges**

in this part of the work the researcher addressed what the respondents might think the challenge faced by the project after engaged in normal operation of textile manufacturing and marketing process Respondent B said there were many challenges faced by project promoters the most severe problem was electric power interruption and fluctuation; scarce of raw material Cotton is the major input contributes more than 60% of the total budget the supply of cotton from local market both in quality and quantity was difficult specially Cotton quality is one of the key factors that hinders the production efficiency of the company and reduces the quantity and quality of products; skilled manpower for machine operation , preventive maintenance and solving technological issues was the problem; The project has also been affected by the combined effects of foreign exchange fluctuations and general price escalations. This has significantly increased the project costs that affect competitiveness of the product & export performance.

#### **4.2.5 Remedial action**

In this part of the interview the researcher ask the respondent the remedial action taken by the project sponsors to protect the project from failing and to help the recovery process and the output of the effort made.

Respondent B said the effort made by project sponsors were as he mentioned in previous question there was Electric interruption problem though it's not solved completely the project sponsors contacted the authority from ELPA and other concerned governmental organs and the problem solved partially ; in order to solve the problem related with quality and quantity cotton supply sponsors established a cotton farm cold Omo Valley corporation as a major share holder of the corporation; considering that harvesting quality cotton time taking process sponsors constructed a ginning factory to improve cotton quality with in short period of time ; providing free diet for employees and free accommodation for expatriates part of the effort made by project sponsors to increase labor productivity additionally I wasn't to know if the remedial action help the project to back on track if not why all the effort made towards project recovery not working .

Respondent B believed the project sponsors repeatedly claimed they invested part of the loan released for the Omo Valley Corporation, a cotton farm established by the initiation of creating a backward linkage for sustainable supply of quality raw cotton. The money invested in this project would have been used to settle the overdue balance of the Loan, but the bank was not willing to accept their proposal for loan diversion from Omo Valley Corporation in order to solve the problem. Else Addis's loan recovery, there was a communication gap between the bank officers and project sponsors due to this and other reasons, all effort made with both parties not worthwhile.

### **4.3 Data analysis & Interpretation**

In this section, the researcher will attempt to analyze the empirical data collected during the interview process, connecting it to the theory, giving a clear and well-argued answer to my research question/objectives, bringing out my own view point's / contributions and taking the researcher stand where deemed necessary.

As earlier mentioned, the researcher interviewed respondents from Development Bank of Ethiopia & Else Addis Industrial PLC. But for the analysis and interpretation of the data, the researcher will discuss shallowly on some of the parts and focus mainly on questions 4.1.3, 4.1.4, 4.1.6, 4.1.7, 4.1.8, 4.2.3, and 4.2.4 which can help to have answers to the study questions since this concerns the activities that give rise to project distress. It is worthwhile to note that this analysis is based on what was said by the respondents, the impression the researcher got while carrying out the interviews and the way the researcher as an individual has interpreted what was said.

The respondents from the two enterprises interviewed shared responses with same meaning to most of the questions although it's from different point of view. The researcher also found some differences in opinion from two respondents and will analyze the two enterprises individually. But, what found out is that almost all their responses tie down with the theory.

### **4.3.1 Interview results**

The aim of this sub-section is to explore the factors of textile project distress, and causes and effects of Else Addis Industrial project distress with the use of semi-structured interviews. These descriptive data are then used together with the literature review to draw the findings, conclusion and recommendations.

In the main, semi-structured interviews were conducted to seek the perceptions of project financier & project promoters this data collection explores the extent of project distress, the main causes textile financial distress negative effects on key stakeholders of such failed projects. The ultimate purpose of this data collection was to validate the findings from the literature review and to explore further themes on the subject under investigation. Data from the literature review and semi-structured interview.

The first objective of the study was to find out the factors that contribute for the distress position of Else Addis textile project, using different criteria as presented in the theoretical framework in Chapter two. In terms of the above criteria, both respondents agreed that the Else Addis project distressed; however, the contributing factors differs for the various criteria and the interviewees' perceptions. The next sub-sections present what interviewees perceive about the factors contributed for project distress

### **4.3.2 Project appraisal factors**

According to Omara (2003) project appraisal involves gathering, processing and analyzing quality of information available to establish project viability and reduce chances of default. Matovu and Okumu (1996) as cited by Omara (2003) points out that commercial banks should base project appraisal on the basic principal of feasibility which factors aspects such as financial appraisal, technical appraisal, market appraisal, managerial appraisal among others. If financial institutions doesn't do project appraisal well, its performance will be highly affected (Omara, 2003).

In line with these theory the finding of the interview justified that proper project appraisal process determine the project success the response from respondent A implicated that the bank not carried out its duty in line with the theory from literature review.

Respondent A was not completely sure the effectiveness of their due diligence assessment on their pre project appraisal work since the company's sponsors foreign origin most of the background check was made depending on information gathered from their country's sources that may create

the question on their credibility , the genuineness of the value of owners equity that includes dismantled and relocated machineries most of it scraped without one day functionality were as the sponsors calculated there depreciation as cost of production .

Regarding Project planning both the respondents agree planning work was done properly although there was a deviation with actual implementation, area of deviation includes on project cost estimation and actual cost incurred, planned project schedule and actual duration of project completion, project scope identification and sponsor engagement in additional unplanned activities.

#### **4.3.3 Project schedule factors**

Both the respondents were in agreement that the projects do not meet its projected timescales and that they have witnessed a lot of time overlap. Both the respondent admit that at the early stage of project execution the project encountered various internal external factors including site taking over delay , local contractors capacity issues , challenges like flood, poor infrastructure and Electrical interruption as well as loan disbursements connected with equity requirement delays although the schedule lag admitted by both respondent in other hand they were not agree on schedule delay related with loan disbursement, were the respondent A argue that the delay on money release depend on the project sponsors requirement not fulfilled whereas the project management argue the problem is the banks bureaucratic process .

On both respondents the importance of project schedule not denied the researcher found this section of the findings in line with theoretical foundation of Alarcon and Ashley (1996), defined effectiveness as a measure of how well the project was implemented or the degree to which targets of time and cost were met from the start-up phase to full production. The time is including as a criterion proposed for project success.

#### **4.3.4 Project Cost factors**

In relation to cost or budget, although both respondents agreed that there is deviation in the project under study the main reason of deviation both respondent agreed upon was the project cost escalation resulted from project implementation delay material and labor cost escalation , interest expense accumulation, they were not agree on the reason of cost over run as per respondent A opinion the overrun emanate from project sponsors action that include unplanned expenses

incurred during project execution , the large amount of foreign currency paid out for foreign experts and operators salary unlike the objectives of giving an opportunity for local manpower and technology transfer

Respondent B in his part argued the cost overrun came from project sponsors good intention to overcome the problem related with raw material supply by creating additional means of income and source of quality raw materials.

Unlike the respondent opinion the project records shows that there is no any income generated from any other sources besides expenses which has no direct link with textile production shown on the records my finding from this responds are the project sponsors against the theory of project cost management the basic element of project success , the theoretical background of the study shows that Project cost management includes the processes required to ensure that the project is completed within the approved budget.

There are three fundamental elements in cost management. The cost management includes the processes involved in (i) cost estimating, cost budgeting and cost controlling costs so that the project can be completed within the approved budget (Owens, Burke, Krynovich & Mance, 2009). It also includes resource planning, which includes determining what resources (people, equipment, materials) and what quantities of each should be used to perform project activities (PMBOK, 1996). For this purpose project managers must make sure that their projects are well defined, have accurate time and cost estimates and have a realistic budget involved in approving.

#### **4.3.5 Project scope factors**

Both of the respondents perceive that the project under study do not meet the planned scope definition but both have their own reason for encountered scope creep respondent A believes project sponsors engaged on different activities other than defined project scope like involving themselves on construction business with the earth moving equipment imported for textile project construction which was completely out of the scope , establishing cotton farm and being create management mix as well as expense mix among the activities of textile processing project and cotton farm .

The project management decision to involve in different business activities seriously hampered the resource of the project both on financial and human resources the issue of loan diversion to cotton

plantation whatever the sponsors intention may be it create scope creep this finding align with the theory of (Mirza, 2013), the recent researches have realized that the lack of a clear definition for project and product scope as well as improper control are the factors why project do not achieve much success. Scope, as a measurable concept, has been considered as either a criterion or cause. In fact, a clearly defined goals and objectives of the project scope has been verified as a dimension for project success by some researchers. In order to meet the owner's needs, the rigorous scope is considered to be a factor which is necessary for and thus achieving success (Collins & Baccarini, 2004).

#### **4.3.6 Market strategy factors**

Both respondents agreed on the project changed market strategy, at project appraisal and visibility study the major part of company's product meant to sale on foreign market in order to create foreign currency for the country's economy the actual performance has showed that export performance of the company was very low , Although respondent B argued the decrease in export market was a result of price competitiveness of the product cost influenced with various internal and external factors, respondent A was not agree on this justification he believes that the project sponsors used to sold their product for only one company " Sister company " there was no international wide range market as per their market study presented for project appraisal , the raw material and all other necessary inputs was supplied by on company " sister company " this implies that the project sponsors market strategy was not genuine the finding from this part of the interview is in conformity with literatures that indicate well established market strategy is the bases of business success .

#### **4.3.7 Project communication factor**

Both respondents agreed on effective communication system wasn't implemented both blame the other for not willingness to listen and cooperate each other flexibility and understanding was missed from their relationship further more communication was totally blocked from the project sponsors side that was the reason mentioned by respondent A as main obstacle to implement various remedial this finding conform that the relevance of effective project management is a

key factor as Studies over the years have proved that effective communication is vital in the project environment it helps to avoid duplication of information, and also provides all the necessary parties involved in the project with relevant, timely information for effective and efficient delivery of the project (Souder et al., 1997; Ernst, 2002; Chan et al., 2004 )

#### **4.3.8 Project sponsors Ethics factors**

Respondent A repeatedly mentioned the project promoters involvement in various unethical behaviors including keeping two accounting records both in English and Turkish language with different financial position of the project , dealing with one company both for selling the product and buying the raw materials which create conflict of interest , manipulating reports loan diversion , unfavorable trade balance by withholding the proceed from export All the above misconducts of the project sponsors lead the project to its trebled situation this finding strengthen the importance of project management ethical and moral value According to (Victor and Cullen, 1957), the changes can be achieved if the ethics start from the management to employees on all the levels. While ethical climate, defined by as a socio-cultural environment, the shared perceptions of what is ethically correct behavior and how ethical issues should be handled. Ethical decisions in the business arena are important because they can have significant implications for business as well as society.

## **CHAPTER FIVE: CONCLUSION & RECOMMENDATIONS**

In this chapter the conclusions drawn from the study and the findings will present. Based on the research question and the answers obtained from the interviews, the following conclusions and recommendations were made based on the findings. Some contributions / implications for the practitioners and possible areas for future study are also included.

### **5.1 Conclusion**

Project financial distress is a hot topic these days in finance and the project's health is very important for investors as well as management. Investors posit money in those projects which are financially healthy as risk of default is minimized for them, while management must be able to identify causes of distress which can be controlled by taking different measures (Khurshid, 2013). Sources of complexity of textile project are studied in order to seek the reasons of project trouble. It is concluded that Else Addis Industrial private foreign textile project, the sources of complexity are based on the project internal factors divided into two parts as project management specific and project financier specific the other determinant factor is external factors.

The identified factors include : lack of prudent due diligence assessment , project appraisal practice and owners equity requirements , poor communication management , delay on disbursement of the loan , Stringent procedure of the Bank in utilization of loan was from Financer specific whereas the project management specific include factors related with triple constraints related with cost overrun , schedule delay , scope creep and project sponsors ethical issues , poor communication culture are categorized as project management specific . As external factor global Economy, Environmental condition , Customers and Suppliers are some of the factors identified , all the above factors lead to project sponsors marketing strategy change from worldwide competitive market to single buyer and supplier and loan diversion to unintended purpose as well as stream of capital out of the country in the form of foreign currency are most stressed factors of project failure & total abandonment by its sponsors .

The case is analyzed in details in terms of the internal and external factors that contribute to increase complexity. In addition, The case studied illustrate that current states of textile projects and the pitfall of the sector related with credit financing. At the current time the project is on the verge of foreclosure by the credit financier as a result of poor loan repayment performance the bank

as well as the project sponsor tried to revert the situation in to recovery witch considered difficult task to accomplish. The main problem of the Else Addis is capital diversion & Change of targeted market strategy on the top of other factors.

Most of the time borrowers are blamed as being the sole cause of the problem because of the assumptions this risk always arises as a result of their default or delay to pay back their loans. I think the loan appraisal analysts are to be blamed too, to a certain extent because this default can in some cases arise as a result of the bank's failure to carry out their own duties correctly, from the beginning their project appraisal work highly influenced by government development strategy to encourage foreign investment by giving a privilege as to importing relocated dysfunctional machineries which scraped at the companies premises without one day functioning . This problem arises flowing government policies regarding FDI specially on textile sector opening the widow for soak up the local capital & resulting in suffocate country's financial resource that should be allocate for other sector domestic enterprises. Whiles FDI's in its advantage side encourage development in host country through transfers of technology and improving production, in case of this study disadvantage of the situation observed . According to the Dependencia School of Thought (neo-Marxist), foreign investors soak up the local capital of host countries rather than bringing in new resources. They also argue that inappropriate technologies are used by investors in host countries which should not be the case (Packenham, 1992). In line with this theoretical background the project under observation neither bring the foreign currency on its intended level nor there measurable technology transfer,

## **5.2 Recommendations**

Depending on the research question, the answers obtained from the interviews, the following recommendations were made based on the findings. Some contributions & suggestion for the experts and possible areas for future studies are also included.

The researcher want to recommend that banks should always try to value all information about the customers with a high level when doing their project appraisal process because the information they may consider to be less important could be the cause of a failure in their decisions or it could be the area from which the customer's default arises.

A good relationship with a customer right from the start, through and along the business will make it easier to identify and if possible solve problems in time before they get off hand. This can indirectly help to automatically bring solutions to some problems beforehand.

Taking a joint development approach or cooperative relationship can reduce risk. Always evaluate a potential market based on solid market research. Project feasibility must be evaluated not only based on government policies and strategic priority, but also with a risk management point of view. Project sponsors reliable background, up-to-date Technological requirement, solid and meaningful equity contribution to be evaluated and managed.

Most of project management factors emanates from optimism underestimation of time, budget, or risks, optimism is a cause of underperformance if the project planner is unrealistically confident. Such a forecaster expects an activity to be executed within a low duration or with a low level of resources, when reality shows that the level of resources required for the task is higher having a consistent methodology for planning and executing projects advisable. Furthermore, a monitoring system for money diversion outside of defined scope must be built. Poor project control is one of the most common problems observed in this study. Deterrence has a negative effect on relation. It leads to project sponsors hiding the problems and financiers overlooking them. In summary, a cooperative attitude and ample communication between the projects and its financier can avoid ineffective measures and reduce losses.

Other factors mostly related with policies and politics that deals with foreign direct investment and its underneath problem must be carefully evaluate on the project appraisal process .Though there are several advantages that FDI creates for host countries and investors, yet the certainty still remains that there are disadvantages too . These disadvantages, influence nations in shifting degrees and are managed in an unexpected way. In this way governments in host countries have to be very careful while deciding the magnitude, guide and conditions of private foreign investment. When handled properly, FDI can prove to be beneficial to both the parties and the economies of both the party's countries as well.

If legitimate rules & regulation is not set up in the host nation, if proper & intensive follow up and inspection in foreign holding industries not established FDI can serve as a capital flow wellspring from the developing nations to the developed ones. In this study symptom of the

above mentioned situation observed in order to minimize the consequence government polices most examined to fill the gap between strategy and implementation.

Finally, the researcher recommend conducting a related study in the future on the impact of foreign direct investment & credit financing on development agenda to provide in-depth recommendations for policy measures.

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## Appendix 1

**Table 1: Production Performance (July, 2015 - December, 2015)**

S.N	Type Of product	Annual plan (at 100%) (ton)	Annual Attainable capacity plan (ton)	Semiannual Plan(ton)	Actual Semiannual (Ton)	Performance (%)
1	Yarn	2,017.37	1,714.76	857.38	2,913.91	340%
2	Woven fabrics	2,445.26	2,078.47	1,039.24	6,708.66	646%
3	Knitted fabrics	780.40	663.34	331.67	120.77	36%
4	Lint Cotton	4,533.02	4,533.02	2,266.51	2,671.73	118%

Source: Report of DBE controlling staffs

## Appendix 2

**Table 2: Sales performance of a company from July, 2015 - December, 2015**

Month	Cash Sales	Credit sales	Export Sales	Service to Omo on Credit Sales	Total Sales Birr
July	32,651,460.52	6,308,737.78	12,327,245.02	129,760,027.05	168,720,225.35
August	15,095,902.97	6,916,889.17	10,847,169.21	-	22,012,792.15
September	11,356,095.53	3,001,265.23	7,986,963.88	-	14,357,360.77
October	16,805,025.00	6,238,369.92	8,404,223.82	4,982,608.88	28,026,003.80
November	18,070,130.87	4,392,916.84	11,674,873.30	-	22,463,047.71
December	17,537,504.51	5,274,037.47	N/A	11,501,283.07	22,811,541.98
<b>Total</b>	<b>111,516,119.40</b>	<b>32,132,216.43</b>	<b>51,240,475.23</b>	<b>146,243,919.00.</b>	<b>329,631,446.98</b>

Source: Report Compiled by DBE Controlling Staffs

## Appendix 3

**Table 3: Total Investment Outlay ( Loan and equity combined)**

S/N	Description	Amount (Birr)
1	Machineries	320,772,602.64
2	Vehicles	10,094,530.61
3	Building and Construction	246,084,325.32
4	Office furniture and fixture	967,080.00
5	Electrical works	44,630,883.14
6	Working Capital (stock)	<b>131,357,901.53</b>
<b>Total Valuation of the Factory</b>		<b>753,907,323.24</b>
Loan		862,940,976.55
Equity		(109,033,653.31)
<b>Debt Equity ratio</b>		<b>114%/-14%</b>

Source: Report Compiled by DBE Controlling Staffs

## Appendix 4

**Table 4: Trade balance, 2015 – May, 2016**

S.N	Type of sales	Value (USD)	Value ( Birr)
1	Export	<b>6,059,647.64</b>	<b>133,711,578.86</b>
2	Import	<b>3,505,110.38</b>	<b>77,343,415.13</b>
	<b>Net Trade Balance</b>	<b>2,554,537.26</b>	<b>56,368,163.73</b>

Source: Report Compiled by DBE Controlling Staffs

## **Appendix 5**

### **Interview guide**

#### **○ General questions:**

- 1- Is it ok that I record?
- 2- What is your name?
- 3- What is your position in the Bank / project?
- 4- How long have you worked in the company? What is your working experience?
- 5- What is your educational qualification?

#### **○ Project identification & appraisal**

- 6- How do you explain the project promoter's identification? Do you think due diligence assessment was reliable? Do you think it was effective? If not why?
- 7- What was the result of project appraisal indicated?
- 8- What was the share of project owner's equity? In what form it was contributed ? what was the relation with project performance
- 9- Why do you think owners' equity are important in a credit granting decision?
- 10 - How do you assess whether the owners contributions offered is enough?
- 11- Is there any situation where the owners contribution is the determining factor for project performance? If so, what situation?
- 12- What was the influence of government policies on your project appraisal decision making ?

#### **○ Project performance question**

- 13- What is your opinion related with triple project constraint and project distress? Please explain to me effect of each constraint.
- 14- Are there any other factors which you think contribute for project distress?
- 15- Do you think you established good communication with the project management? if not what do you think the reason
- 16- What do you think about project management ethics?
- 17- Have you ever encountered a situation where project sponsors ethical issue influence the project performance? If so when ? How?
- 18- What is the current statues of the project financed by the bank? What do you think the challenges ?

**19-** What remedial action taken by your firm? Was it effective? If not why?

- **Effects of external factor on project performance**

**20-** What are the external factors affect the project execution? How?

- **Conclusion**

What measure do you suggest to improve credit financing and project success?

Do you have anything to add?

Can I get back to you in case of any further questions?