ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS DEPARTMENT OF PUBLIC POLICY AND DEVELOPMENT MANAGEMENT (DEVELOPMENT)

ASSESSMENT OF GOVERNMENT PRIORITY PROJECT APPRAISAL PROCESS IN DEVELOPMENT BANK OF ETHIOPIA

BY

SENAY GETU TESHALE

JUNE 2016

ADDIS ABABA

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A THESIS SUBMITTED TO GRADUATE STUDIES OF ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS DEPARTMENT OF PUBLIC POLICY AND DEVELOPMENT MANAGEMENT (DEVELOPMENT)

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Declaration

I here by declare that this thesis is my original work and has not been presented for a Degree in any another University. Also all sources of material used for this thesis has been duly acknowledged.

Date _____ Signature _____

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ACRONYMS

CSA Central Statistics Authority

DBE Development Bank of Ethiopia

GTP Growth and Transformation Plan

NBE National Bank of Ethiopia

NPL Non Performing Loan

Executive Summary

It is well known that the Ethiopian Government formulated a five years plan GTP I and implemented in the last five years. The Government focused on priority projects which are stimulated the country economic growth and transformation. From these priority projects manufacturing is the main sector as it creates a lot of employment opportunity and generating foreign currency. DBE as a state Bank implemented the government plan as it gives priority projects based on government direction for financing for the last five years. However, the Bank NPL ratio was above the standard rate which indicates there exist a certain problem related to Government priority project appraisal process. Hence, the purpose of this study is to assess the challenges of government priority projects in appraising system specially on manufacturing project in DBE and give the required recommendation as a remedy for solving or reducing the effects of the stated problem.

The study employed both quantitative and qualitative research approaches to achieve the intended objectives. Both primary and secondary data types were used to collect data from project appraisers and Team Leaders and internal records of the bank various financial reports. Questionnaire and semi-structured interview were used for collecting both primary and secondary data types. In the research all employees of the project appraisers and team leaders had been considered in other words there was no need to apply any kind of sampling techniques. Moreover, descriptive analysis method was used. All the close ended questions of the questionnaires were analyzed quantitatively using mean, frequency counts and percentages. Accordingly, the study revealed that the absence of quality and completeness of manufacturing project proposals submitted by customers and poor credit culture of customers of the bank, low level skill of credit performers, lack of support of research unit to credit process of the bank, and absence of adequate data and information in the DBE project appraisal processing , less availability of data and up-to-date data & information outside DBE are major challenges of the manufacturing project financing by the DBE.

Finally recommendations were made based on the results of the study. Key recommendations include using branches in project appraisal process, intensive training, strengthening research & development, maintaining good relationships with external institutions, concentration on economic aspect of the project rather than only on commercial aspects, and finally increase its follow up and control after project financed.

CHAPTER ONE
1. INTRODUCTION

Under this chapter issues related to the research environment, problem statements, objective and significance of the study are discussed.

1.1 Background of the Study

The discipline of development banking has its genesis in the growth theories and models of the development economists of the 1950ʺs (Bruck, 2001). These pioneers in development explained that the growth of income was directly and positively related to savings. The more an economy is able to save and invest, the greater will be the growth of its gross domestic product. The concept of capital investment was advocated as the means to achieve accelerated economic growth. This led to them to believe that the provision of long term financing accelerated growth, and the creation of development banks was considered the solution to the problem of alleviating the shortage of development financing. Development banks were to generate a multiplier effect in activating the development process toward take-off. (Bruck, 2001)

Viewing this from today perspective, circumstances are changed. This leads to project that the role of development banks in 21st century will be determined by the nature of the society and the development context and economic environment in which these banks operate (Harrod, 2002). The banks achieve their objective of serving as the principal instruments for planning, financing, monitoring and evaluating development projects and programs that are in accordance with national, regional, and international development priorities. This role influenced by history and legacy that is the experience they have gained and the evolution they have lived through in the second half of twentieth-century. Other important factors shaping this role are current dominant trends in the world economy; in particular, economic liberalization, privatization of public enterprises, and the progressive globalization of world trade finance (Harrod, 2002).

Development bank is a specialized financial institution with functions and operations that can be defined with regard to its hybrid financial development character. It also covers the relations the institutions with national and local governments, with international institutions, and with policy making and planning

agencies. Development banks are institutional instruments of public policy whose performance is measured more in terms of social benefits generated, as measured by indicators of social accounting. The operations of these banks are linked with the industrial, agricultural and other development process (Bruck, 2001).

Development banks are organized to achieve the preparation, appraisal, financing, implementation and evaluation of investment projects and programs. The important differences of development banks from commercial and investment banks are it gives priority to the financing of projects that yield substantial economic, social and environmental benefits. They provide technical assistance to improve the quality of projects and to reduce the risk. They use economic and social cost benefit analysis as part of project appraisal to estimate the expected contribution of a project to development (Bruck, 2001).

The Development Bank of Ethiopia (DBE) is one of the financial institutions engaged in providing short, medium and long term development credits. DBE‟s distinguishing feature is its "project" based lending tradition. Projects financed by the Bank are carefully selected and prepared, thoroughly appraised, closely supervised and systematically evaluated. Since its establishment in 1909, the bank has been playing a significant role in promoting the overall economic development of the country (DBE annual report 2012/13).

The Bank organizational set-up comprises a Supervisory Agency, a Management Board, a President and the necessary staff pursuant to the public enterprise proclamation No. 25/1992. The bank has regional and branch offices which are strategically located throughout the country. In order to facilitate the services rented to its customers, the Bank has recently given all regional offices the authority to appraise, grant and disburse loans on their own up to certain earmarked limit.

In its long years of services, DBE has established recognition at national and international levels. Nationally, it is the sole Bank with reputable experience in long-term investment financing. Internationally, it is recognized as an important on-lending channel for development programs financed by bilateral and/or multi-lateral source. The recent focuses of the Government in relation to DBE is to provide medium and long-term loans for investment projects, which are engaged in Manufacturing Industries, Agro-processing, Commercial Agriculture and finally Extracting and Mining Industry, preferably export focused. (DBE annual report 2013/14)

Hence, the Government formulated the Growth and Transformation Plan (GTP I) and implemented from 2010/11 up to 2014/15. The main Government priority developmental focuses were commercial agriculture, agro-processing, manufacturing industries and extractive and mining industries and the Government also selected DBE as major financer focused on these related projects. Accordingly, the DBE released an amount around 38 billion birr to these Government priority sectors and planed to disburse for the next five years plan from 2015/16 up to 2019/20 GTP II up to 76 billion birr for same sectors. As the DBE has less saving resources to finance these projects, the NBE issued directive, based on the government policy, during the first year of GTP I all private commercial banks instructed to purchase a five year treasury bond for every disbursed loan up to 27% with 3% interest per annum. However, the private commercial banks mobilized the saving from customers with 6% per annum. This indicates that private commercial banks scarifying for the overall national development goals in terms financial return. Their aggregate amount of the treasury purchased bond reached 40 billion birr during the previous GTP I period. These funds has been transferred to DBE to finance these government priority projects believed to bring big Scio-Economic structural change to the country in terms of creating huge employment opportunity and earning additional foreign currency.

Based on the above facts, some questions arise: Does the DBE have sufficient experience and expertise knowledge related to appraising effectively these government priority projects specifically the manufacturing industry? Is the system in place to identify and measure weak aspects of project appraisal during due diligence appraisal process? Is there any financed project failed to implement as per its schedule time?

The study, therefore, concentrates on the assessment of various aspects of project appraisal system which are practiced by DBE for the evaluation and appraisal of its projects for financing from the available of country scarce saving resources.

1.2 Statement of the Problem

Proper investment planning and implementation of projects are intimately linked to the macro development goal of the country. Efficient management of investment resources and continuous evaluation of investment outcomes are the two most crucial activities necessarily for ensuring the optimum use of scarce resources and determining the emerging character of development for its direction and effectiveness. Successful implementation of development plans and programs has come to

depend heavily on investment decision and effective use of resources. The need for effective use of resources is strongly felt as instrument of aid policy in the public and private sector of the economy. This trend is to be welcomed because it is important that the country resources should be used in the most effective way possible of the economy is to be strong and our standard of living is to be improve. (Davies, 2002)

Each country has its own development objectives and this in turn requires that the resources be judiciously allocated in order to attain these objectives. The use of resources which are limited to attain objective implies their reduced availability for other objectives. If resources are used efficiently, the number of objectives that can be pursued simultaneously increases. Development planning, therefore, requires the fixing and ranking of objectives and the efficient allocation and use of scare resources (Nagarajan, 1993). Once objectives are established and ranked for a certain period, individual investment proposals should be scrutinized to determine whether and to what extent they can contribute to the desired results.

Therefore, project appraisal is necessary because of the fact that resources are limited as compared to the needs of the society. As a result, any investment undertaken implies depriving other project resources. Hence it is to appraise projects before investment decision so that scarce resources are utilized in the best possible ways. In other words, before allocation of resources for a particular development project, it is the best and most economical way of achieving the desired objective in terms of social-economic benefits (Nagarajan, 1993).

For this and ensuring economic use of resources we have to appraise each project very minutely from different angles. Project appraisal involves detailed pre-investment analysis of market, technical, financial and economic characteristics of a project with a view to determine its market and technical feasibility, financial soundless, economic desirability and finally measuring its investment worth. The task aims mainly at ensuring that scarce resources are put to most effective use. It requires the combined efforts of a team of persons from various disciplines such as engineers, financial analyst, economist, (Prasanna, 2006)

As the DBE selected by the Government to finance its priority projects with the available resources, the Bank may lack the basic nature and expertise of the manufacturing industries, so as also to policy maker, various government offices and the project owner themselves. As the result the manufacturing industries

failed to create what is expected from it in terms of creating job opportunity and earning of foreign currency especially for the previous GTP I.

The appraisers in DBE have practiced and experienced by years of secured backed lending behavior now have to appreciate project appraisal and financing, in turn, this leads to implement better practice of project appraisal system focused on the basic aspect of it. Project related to manufacturing industries should appraise wisely in terms of commerciality, economically, financially, management expertise and social cost benefit analysis.

According to Omara (2003) project appraisal involves gathering, processing and analyzing quality of information available to establish project viability and reduces chances of default. Banks should base project appraisal on the basic principle of feasibility which factors aspects such as financial, technical, market, managerial and economical appraisal among others. If bank do not do project appraisal well, its performance will be highly affected as the result of the provision increased for bad project loans.

In the last GTP I period the DBE has approved an aggregate amount of birr 27.3 billion to various projects. Out of the approved amount of the project loan on five years average of 68.26% was manufacturing projects. However, the DBE five years NPL ratio was 11.16% (Report of Corporate Service, Performance Management Division, 2014/15) which is by far higher than both the international and the NBE maximum requirement that is 5%. Therefore this paper strives to assess whether the DBE project appraisal system may impact on the DBE higher NPL ratio.

1.3 Research Questions

The fundamental research questions that have been handled during the study were the following:

- How much was the share of manufacturing industry financed by DBE‟s, for the last GTP I, from the overall credit portfolio?
- How effective was the DBE project appraisal system in evaluating manufacturing industry projects?
- Was there any financed manufacturing industry project failed to implement as per its time schedule? If there is, what is the basic cause?
- Were there any challenges faced by DBE‟s project appraisers in the process of project evaluation especially related to manufacturing industry?

1.4 Objectives of the study

The formulated main objective and specific objective that elaborate the research were presented below:

1.4.1 General objective

The general objective of the study was to assess, identify and describe the problem of project appraisal system by DBE related to the manufacturing industry.

1.4.2 Specific Objectives

- ✓ To review the share of manufacturing industries projects in DBE credit portfolio
- ✓ To assess the effectiveness of DBE priority project appraisal system especially related to the manufacturing industry project.
- ✓ To know the causes of failure related to financed projects of manufacturing industry, if any.
- ✓ To examine any challenges faced by DBE appraisers during manufacturing industry project evaluation process.

1.5 Significance of the Study

The study main significance is to understand and to make known to various stake holders such as banks, project promoters. The major project appraisal problems related to government priority projects: textile and garment, leather industry. Moreover it may be useful for further research in related area.

1.6 Scope of the Study

The study focused only on assessing of DBE priority projects appraisals system. The study also concentrates on GTP I implementation period during the past five years from 2010/11 up to 2014/15. The research also limited only on the areas of manufacturing industries only.

1.7 Organization of the Study

The research paper included an introductory part, literature review, methodology, data analysis and finding and recommendation organized under chapter 1 up to 6 respectively.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 Meaning and Definition of Project Appraisal

Project appraisal is systematic analysis of a proposed project‟s viability using financial and economic appraisal tools to determine the cost benefit of proceeding with the project and its cost-effectiveness in meeting its intended objectives. A standard criterion is then used to compare several project alternatives (Lester, 1986).

It is generic term that refers to the process of assessing, in a structured way, the case for proceeding with a project or proposal. In short, project appraisal is the effort of calculating projects viability. It often involves comparing various options, using economic appraisals or some other decision analysis technique (Bhardwaje, 1994).

Appraisal means assessment and estimation. It defined as a non routine, involves number of uncertainties and has a definite period of time (Gosh, 1997).

Project appraisal is a systematic and comprehensive review of the economic, environmental, financial, social, and technical and other such aspects of a project to determine if it will meet its objectives (Singh, 1997).

Project appraisal is the structured process of assessing the viability of a project or proposed. It involves calculating the feasibility of project before committing resources to it. It is a tool that company use for choosing the best project that would help them to attain the goal. It often involves making comparison between various options and this done by making use of any decision technique or economic appraisal technique. It is a tool which is also used by companies to review the project completed by it. This is done to know, how much the company has invested on the project and in return how much it is gaining from it (Vias, 1994).

Project appraisal means a pre-investment analysis of a project to determine whether the project should be implemented or not. There are some inherent differences between the term of project appraisal and project valuation although they are often used interchangeably. Project appraisal refers to an ex-ante

examination of a proposal project to determine whether the same should be implemented or not whereas project valuation is an axe-post assessment of the impact of accomplished project (Nagaraja, 1993).

2.2 Characteristics of Project

Major project characteristics are below:

Objective: A project has a set of objectives or mission. Once the objectives are achieved, the project is treated as completed.

Life Cycle: A project has a life cycle. The life cycle consists the following stages (Goel, 1993):

- ✓ Conception stage: Where project idea are conceived.
- ✓ Design stage: Where detailed design of different project area are worked out.
- ✓ Implementation stage: Where the project is implemented as per the design.
- ✓ Commissioning stage: Where the project is commissioned after implementation. Commissioning of a project indicates the end of its life cycle.

Definite Time Limit: A project has a definite time. It cannot continue.

Uniqueness: Every project is unique and no two projects are similar.

Team Work: A project normally consists of diverse areas. There will be personnel specialized in their respective areas. Any project calls for the services of experts from a host of discipline. Co-ordination among the diverse area calls for team-work. Hence a project can be implemented only with team work.

Complexity: A project is a complex set of activities relating to diverse areas. Technology survey, choosing the appropriate technology, procuring the appropriate machinery and equipment, hiring the right kind of people, arranging for financial resources, execution of the project in time by proper scheduling of the different activities etc contribute to the complexity of the project.

Sub-contracting: This characteristics stems forth in a view of the complexity of functions and activities of a project. Some of the activities are entrusted to sub-contractors to reduce the complexity of the project. Sub-contracting will be advantageous if it reduces the complexity of the project so that the project manager can co-ordinate the remaining activities of the project more effectively. In general, the greater the complexity of the project, the larger will be the extent to which sub-contracting will be

resorted to. Sub-contracting is also helpful if the sub-contractors are specialized in their field of activity since this will improve the quality of a project.

Risk and Uncertainty: Risk and uncertainty go hand in hand with project. A risk free project cannot be thought of. Even if a project appears to be risk free, it only means that the risk element is not apparently visible on the surface and it will be hidden underneath. The risk factor will come to surface when conditions become conducive to it. Some of the risk element can be foreseen and the project can be strengthened to encounter the risk as and when it emerges. Some other risk elements cannot be foreseen.

Customer Specific Nature: A project is always customer specific. This is because the product produced or services offered by the project are necessarily to be customer oriented. It is the customer who decides up on the product to be produced or services to be offered and hence it is the responsibility of any organization to go for projects/services that are suited to customer needs.

Change: A project is not rigid in its life span. Changes occur throughout the life span of a project as a natural outcome of many environmental factors. The changes may vary from minor changes which may have very little impact on the project to major changes which may have big impact or even may change the very nature of the project.

Response to Environments: Projects take shape in response to environments like policy, economic and political change.

Rational Choice: Since a project is a scheme for investing resources, the choice of project is done after making a study of the entire available avenue for investing resources and a rationale choice among the available avenue is made.

Forecasting: Forecasting the demand for any product/service that the project is going to produce is an important aspects of a project . Only if the forecast gives positive indications, the project is taken up further study. Thus, all projects involve forecasts and in view of the importance attached to forecasts, they must be accurate and based on sound fundamentals.

Optimality: A project is always aimed at optimum utilization of resources for the overall development of the organization/economy. Resources are scarce and resources have a cost. Hence, optimum utilization of resources is a must for any project. Many project management concepts have evolved with the aim of achieving optimum utilization of available resources.

Control Mechanism: All projects will have pre-designed control mechanism in order to ensure completion of projects within the time schedule, within the estimated cost and at the same time achieving the desired level of quality and reliability.

2.3 What is Project Finance?

Project and project financing have been defined by different scholars in different ways. Some of the definition given by two scholars:

"Project finance is the raising of funds to finance an economically separable capital investment project in which the providers of the funds look primarily to cash flow from the project as the source of funds to service their loans and provide the return of and a return on the equity invested in the project" (Finery, 1987)

"Project finance involves the creation of a largely independent project company financed with non-recourse debt and equity from one or more sponsors for the purpose of financing a single purpose, industrial asset" (Esty, 1984)

The same author stated also that project financing means arranging funds for the implementing a new project or undertaking expansion, diversification, modernization or rehabilitation of the existing projects.

2.4 Participants in Project Financing

There are different stakeholders who are involved in project financing. As Prasanna (2006) mentioned:

- ✓ Government: It is responsible for creating an enabling environment for project finance transactions through its legal system and other associated legislation
- ✓ Equity Funders: These are the owner of the project company and contribute the riskiest portion of the total funding of the project (equity). The contribution is usually in the order of 40 to 50 percent, as proportion of the total funding.
- ✓ Nonrecourse Debit Funders: These are the provider of Long-Term loan to the transaction. These are usually commercial banks, Development Finance Institutions, Multilateral, Bilateral and Export Credit Agencies.

- ✓ Operator: This is usually the Engineering Firm that is in control of the construction and operation management of the project.
- ✓ Construction/Engineering Consultant: This is the company responsible for engineering, procurement and construction.
- ✓ Equipment Suppliers: This is the selected manufacturer of the key equipment to be used during construction of the project.
- ✓ Environment Impact Assessment: This is the specialist who assess whether the project meets the minimum standards of both national and international environment related legislation and agreements.
- ✓ Affected Communities: These are important stake holders who are directly or indirectly affected by the project.

2.5 Challenges in Project Financing

According to (Ford, 1983), no matter you are a new project manager, or an experienced leader, project management will continue to reveal itself as part art, part science, and part major headache. The list below highlights some of the top project management challenges that can affect project financing in banks:

- ✓ Unrealistic deadlines: Some would argue that the majority of projects have "schedule slippage" (Ford, 1983, P. 43) as standard features rather than an irregularity. The challenge of many managers becomes to find alternative approaches to stakes and schedules in order to complete a project "on time", or to get approval for slipping dated out. An "absolute" time based deadline such as government election, externally scheduled event, or public holiday forces on an on time completion (through perhaps not with 100 percent of desired deliverables). But, most projects timelines do eventually slip due to faulty initiate deadlines (and the assumption that created them).
- ✓ Scope changes: As most project managers know, an evil opponent "The scope Creep" is usually their number one enemy who continually tries to take control.
- ✓ Communication deficit: Many project managers and team members do not provide enough information to enough people, along with the lack of an infrastructure or culture for good communication.

- ✓ Resource competition: Projects usually compete for resources (people, money, time) against other projects and initiative, putting the project manager in the position of being in competition.
- ✓ Uncertain dependencies: As the project manager and the team determine project dependencies, assessing the risk or reliability behind this linkage usually involves trusting someone else‟s assessment.
- ✓ Failure to manage risk: A project plan has included in it some risks, simply listed, but no further review happens unless instigated by an event latter on.
- ✓ Insufficient team skill: The team members for many projects are assigned based on their availability, and some people assigned may be too proud or simply not knowledgeable enough to tell the manager that they are not trained for all of their assigned work.
- ✓ Lack of accountability: The project participants and related players are not held accountable for their results-or lack of achieving all of them.
- ✓ Customers and end users are not engaged during the project: Project teams can get wound up in their own world of internal deliverables, deadlines and process, and the people on the outside do not get to give added input during the critical phases.
- ✓ Vision and goal not well defined: The goal of the project (the reasons for doing it), along with the sub-projects or major tasks involved, are not always clearly defined. Clearly communicating these vague goals to the project participants becomes an impossible task. Project leadership is a skill that takes time to develop in a person or organization. Achieving success requires analyzing setbacks and failures in order to improve. Focusing on each project‟s challenges and learning from them will help to build a more capable and successful project management capability.

2.6 The significance of Project Appraisal

One of the challenges before lenders of manufacturing projects lies in evaluating the viability and bankability of a project by following proper appraisal process. The key to successful project appraisal is in ensuring that the project has passed through stringent appraisal process and risk evaluation and that the lenders should not feel that the decision to lend is merely based on “reduce to ashes” (Collier, 1982, p. 52) feeling. They have to be confident enough that the project they finance should be repaid.

From this we can see that making a cost benefit analysis is just like choosing the most viable investment proposal through systematic evaluation process. Banks plays a catalytic role in the development process

of the country. This is because banks are one of the independent parties which review whether each project accords with the broad development objectives and fits in to development process of the country through the appraisal process. This appraisal process also makes banks more efficient because it helps them in many aspects. Some of them are stated bellow: (Collier, 1982).

- ✓ It increases banks capacity of utilizing financial resources efficiency;
- ✓ It helps to make the best choice from many project alternatives;
- ✓ It ensures a low proportion of non-performing investments;
- ✓ It helps to achieve the best value from investments;
- ✓ Provides a high probability of recovering investments; and
- ✓ It ensures continued bank‟s growth.

2.7 Steps of Project Appraisal Process

The development of investment project from the stage of initial idea until the plant is in operation can be shown in the form of a cycle comprising three distinct phases, the pre investment, investment, and the operational phases.

The pre-investment phases as a central point of attention, because the success or failure of an investing project ultimately depends on the marketing, technical, financial and economic findings and their interpretation especially in the feasibility study. The pre investment phase comprises several stages: (Smith & Walter, 1999)

- Identification of investment opportunities studies,
- Analysis of project alternatives,
- Preliminary projects selection as well as project preparation,
- Pre feasibility and feasibility study,
- Project appraisal, investment decision and appraisal report.

2.8 Aspects of Project Appraisal

Various aspects of project appraisal are listed below, (Nagarajan, 1993, p.45)

2.8.1 Technical Appraisal

Technical appraisal broadly involves a critical study of the following aspects;

Selection of process/technology: For manufacturing a product, more than one process/technology may be available. The choice of technology also depends up on the quality and quantity of the product proposed to be manufactured. If the quantity required to be produced is large, mass production technique should be followed and the relevant technology is to be adopted. The quality of the product depends upon the use to which it is meant for. A product of pharmaceutical grade or laboratory grade should have high quality and hence sophisticated production technology required to achieve the desired quality. Products of commercial grade do not need such high quality and the technology can be chosen accordingly.

There is no point in choosing a sophisticated technology meant for getting high quality products , where the products is meant for commercial use for which high quality is not reqired. Such unwarranted emphasis on quality will only land the project in trouble since the consumers will not be ready to pay higher price merely for the sake of high quality which they do not really need.

A technology appropriate for one country may not be the ideal one for another country. Even within a country, depending upon the location of the project and other features. The term „appropriate technology" refers that technology that is suitable for the local economic, social and cultural conditions. Appropriate technology can be identified by asking the following questions:

- Does the technology make use of locally available raw material?
- Can the technology by implemented and maintained by locally available man power?
- Is the technology in tune with the local social and cultural conditions?
- Does the technology protects ecological balance? Etc….

Scale of Operations*:* Scale of operation is signified by the size of the plant. The plant size mainly depends on the market for the output of the project. Economic size of the plant varies from project to project. Economic size of the plant for a given project can be arrived at by an analysis of capital and

operating costs as a function of the plant size. Other factors like special problems of fabrication of equipments, transportation and erection of equipments, problem associated with availability of production inputs on a sustained basis etc., also impose restriction on the plant size.

Raw material: A product can be manufactured using alternative raw material and with alternative processes. The process of manufacture may sometimes vary with the raw material chosen. If a product can be manufactured by using alternative raw materials, the raw material that is locally available may be chosen. Since the manufacture process and the machinery/equipment to be used also to a larger extent depend upon the raw material, the type of raw material to be used should be chosen carefully after analyzing various factors like the cost of different raw materials available, the transportation cost involved, the continuous availability of raw material etc.

Since the process of manufacture and the machinery/equipments required depends upon the raw material used, the investment on plant and machinery will also to some extent depend upon the raw material chosen. Hence the cost of capital investments required on plant and machinery should also be studied before arriving at a decision on the choice of raw material.

Technical know-how: When technical know-how for the project is provided by expert consultants, it must be ascertained whether the consultant has the requisite knowledge and experience and whether he has already executed similar projects successfully. Care should be exercised to avoid self-styled, inexperienced consultant. Necessary agreement should be executed between the project promoter and the know-how supplier incorporating all essential features of the know-how transfer. The agreement should be specific as to the part played by the know-how supplier like taking out successful trial run, acceptable quality of final product, imparting necessary training to employees in the production process, taking out successful commercial production, performance guarantee for specified number of years after the start of commercial production etc.

The agreement also should include penalty clauses for non-performance of any of the conditions stipulated in the agreement. Payment of know-how fee should as far as possible made in stage along with the progress of the project and it is the normal practice to retain a portion of the know-how fee and to release the same only after compliance of all the conditions stipulated in the agreement.

Collaboration Agreement: If the project promoters have entered into agreement with foreign collaborators, the terms and conditions of the agreement may be studied as explained above for know-how supply agreement. Apart from this, the following additional points deserve consideration.

- ✓ The competence and reputation of the collaborators needs to be ascertained through possible sources including embassies abroad and the collaborator‟s bankers.
- ✓ The technology proposed to be imported should suit to the local conditions. A highly sophisticated technology, which does not suit local conditions, will be detrimental to the project.
- ✓ It must be ensured that the collaboration agreement does not infringe upon any patent rights.
- ✓ It is better to have a buy-back arrangement with technical collaborator. This is to ensure that the collaborator would be serious about the transfer of correct know-how and would ensure quality of output. Buy-back arrangement also helps the unit to release the pressure on the need for valuable foreign exchanges.

Product Mix: Customers differ in their needs and preferences. Hence variations in size and quality of products are necessary to satisfy the varying needs and preferences of customers. In order to enable the project to produce goods of varying size nature and quality as per the requirements of the customers, the production facilities should be planned with an element of flexibility.

Such flexibility in the production facility will help the organization to change the product mix as per customer requirements, which is very essential for the survival and growth or any organization. Adding flexibility to the production facilities is not without any cost. It involves additional cost. However, a cost benefit analysis keeping in view the long term benefits will indicate the need for such additional cost to incur.

Selection and Procurement of Plant and Machinery: In selection of machinery, it required for a project depends upon the production technology proposed to be adopted and the size of the plant proposed. Capacity of each machinery is to be decided by making a rough estimate. In case of process industries, the capacity of the different machines used various stages should be so selected that they are properly balanced.

Related to procurement of machinery, plant and machinery form the backbone of any industry. The quality of output depends upon the quality of machinery used in processing the raw materials (apart from the quality of raw material itself). Uninterrupted production is again ensured only by high quality

machines that do not break down so often. Hence no compromise should be made on the quality of the machinery and the project promoter should be on the lookout for the best brand of machinery available in the market.

Plan layout: The efficiency of a manufacturing operation depends upon the layout of the plant and machinery. Plant-layout is the arrangement of the various production facilities within the production area. Plant layout should be so arranged that it ensures steady flow of production and minimizes the overall cost.

Location of Projects: choosing the location for a new project is to be done taking many factors into account. The study of plant location is done in two phases. First a particular region/territory is chosen that is the best suited for the project. Then, within the chosen region, the particular site is selected.

In regional factor, the following points should be considered:

- *Raw materials*: raw materials normally constitute about 50 to 60 percent of the cost of the final product. Hence it is important that the cost of raw material should be minimum. To procure raw material at minimum cost, the plant must be located nearer to the place where raw material is available so that transportation cost will be reduced and the number of middle men involved in the procurement process also will be reduced.
- *Proximity to market*: if transportation of the finished product is more difficult (due to special nature of the finished products) than transporting the raw material and also if the cost of transporting the finished product is more as compared to the transportation cost of raw material, it is advantageous to locate the plant nearer to the consumer i.e., near to the market.
- *Availability of labor:* though unemployed people are in plenty in our country, this does not mean that there will be no problem in getting the labor force required for the project. Availability of skilled labor is what is the criterion rather than availability of unemployed who are unemployable! If the project needs skill of general nature, people can be recruited and trained to the requirement.
- *Availability of supporting industries:* if a firm has proposed to get some of the production operations done from outside, there must be suitable industries existing in the surrounding area to undertake such subcontracting works. The reverse phenomenon is also true i.e., if a project is set up mainly with the idea of doing sub contract work to a major industrial establishment, the

project should be located as far as possible nearer to the major industry that is going to offer sub contracts.

- *Availability of infrastructural facilities:* availability of power, water, transport facilities and communication facilities are important aspects to be considered.
- *Project scheduling:* scheduling is nothing but the arrangement of activities of the project in the order of time in which they are to be performed. The schedule which broadly indicates the logical sequence of events would be as under.
    - Land acquisition
    - Site development
    - Preparing building plans, estimates, design, getting necessary approvals and entrusting the construction work to contractors.
    - Construction of building, machinery foundation and other related civil works and completion of the same.
    - Placing order for machinery
    - Receipt of machinery at site and erection of machinery.
    - Commissioning of plant and taking trial runs
    - Commencement of regular commercial production.

2.8.2 Commercial Appraisal

It is concerned with market for the product/service. The very idea of promoting a project is to produce some product/service and to market the same to the consumers and earning a profit thereby. Hence, market appraisal occupies a prime place in project appraisal. In fact in modern management concept, marketing management receives more attention than in earlier years. This is because of the reason that the very survival and success of any project depends on the question as to whether the product/service offered by the project is successful commercially.

Commercial (market) appraisal of a project is done studying the commercial successfulness of the product/service offered by the project from the following angles.

- Demand for the product.
- Supply position for the product.
- Distribution channels.

- Pricing of the product
- Government policies.

2.8.3 Economic Appraisal

It measures the effect of the project on the whole economy. Developing and under developing countries face scarcity of capital and foreign exchange. Hence in the overall interest of the country, the limited stocks of capital and foreign exchange should be put in to the best possible use. Hence, policy maker are concerned as to where the scarce resources can be directed to maximize economic growth of the country. So, among the alternative projects, the policy makers make a choice based on the economic return.

2.8.4 Financial Appraisal

Financial appraisal of project consists of two major areas: arriving at the cost of the project and arriving at the appropriate means of financing the project. By means of financing, we mean the combination of equity and debit. The proper equity-debit combination for a project depends upon the revenue earning capacity of the project. Though equity does not attract any interest and does not involve any repayment obligation, the debit obtained for financing the project is to be repaid along with interest. Hence, the revenue earning capacity of the project should be sufficient enough to meet the repayment of debt with interest. Moreover, the project should also generate additional revenue to meet the cost of equity capital. Though equity is contributed by the project promoters, it is not without any cost. An entrepreneur invests his capital in a project with a hope of getting returns on his capital invested apart from meeting debit obligation.

2.8.5 Management Appraisal

Management is the most important factor that can either make a project a success or a failure. A good project at the hands of poor management may fail while a not-so-good project at the hands of an effective management may succeed. Hence, banks and financial institutions that lend money for financing projects lay more emphasis on management appraisal. Lending institutions look at two points before committing their funds to project financing. They look at the capacity of the project to repay the loan along with interest within the stipulated period of time and also they observe the willingness of the borrower to repay the loan. While the „capacity to repay" is assessed by technical, commercial and financial appraisals whereas the „willingness to pay or propensity to repay" assessed by management

appraisal. While other appraisal techniques are quantitive and objective in nature, management appraisal is purely qualitative and subject in nature.

Integrity, foresightedness, leadership qualities, Interpersonal relationship, technical and financial skills, commitment, perseverance etc., are some of the parameters that need to be studied in management appraisal. The importance of management appraisal is being increasingly felt now a day in view of the growing number of units that have become sick due to mismanagement. Though management appraisal is a vital aspect of project appraisal, it still remains more of a subject exercise and it will continue to remain so, though refinements are possible. This is because; management appraisal is concerned with the appraisal of human qualities.

2.8.6 Social Cost Benefit Analysis

The main objective of an individual, a firm or a company in investing on a project is to earn the maximum possible returns for the investment. Accordingly, the project promoters are solely interested in wealth maximization. Hence the project promoters tend to evaluate only the commercial profitability of the project.

There are some projects that may not offer attractive returns as for as commercial profitability is concerned, but still such projects are undertaken since they have social implications. Such projects are public projects like road, railway, bridge and other transport projects, irrigation projects, power projects etc., for which socio-economic considerations play a significant part rather than mere commercial profitability, which is nothing but the socio-economic cost-benefit analysis done at the national level (Reo, 1989).

2.9 Project Appraisal and Finance Lesson in Developing Countries

According to the IFC (International Finance Cooperation) on lesson of experience no. 7 titled by Project Finance in Developing Countries, in the past twenty years there has been a new wave of global interest in project finance as a tool for economic investment. Project finance helps finance new investment by structuring the financing around the project's own operating cash flow and assets, without additional sponsor guarantees. Thus the technique is able to alleviate investment risk and raise finance at a relatively low cost, to the benefit of sponsor and investor alike. Though project finance has been in use for hundreds of years, primarily in mining and natural resource projects, its other possible applications—especially for financing large Greenfield projects (new projects without any prior track record or

operating history)—has only recently received serious attention. This is particularly so in developing markets, but here its application is also broadening, as illustrated by the following examples of IFC-supported projects:

- In Argentina, in 1993, project finance structuring helped raise US$329 million to finance investment in the rehabilitation and expansion of Buenos Aires' water and sewerage services based on a new 30-year concession awarded to Aguas Argentina‟s. The investment, financed with IFC support, has helped improve water quality and service to a city of more than 6 million people. At that time, private sector participation in a water concession in a developing country was an untested idea, and there was virtually no precedent for a private company operating in such an environment raising substantial resources in international capital markets.

- In Hungary, in 1994, project finance structuring helped finance a 15-year concession to develop, install, and operate a nationwide digital cellular network. The $185 million joint venture project was an important part of the government's privatization and liberalization program. Because of difficulty attracting commercial financing at that time, the project relied heavily on $109 million in debt and equity financing from IFC and the U.S. Overseas Private Investment Corporation (OPIC).

- In China, in 1997, Plantation Timber Products (Hubei) Ltd. launched a $57 million Greenfield project to install modern medium-density fiberboard plants in interior China, using timber plantations developed over the past decade, to support China's fast-growing construction industry. As part of the limited-recourse financing for the project, IFC helped arrange $26 million in syndicated loans, at a time when foreign commercial banks remained cautious about project financing in China's interior provinces.

- In Mozambique, in 1998, project finance structuring helped establish a $1.3 billion Greenfield aluminum smelter. Mozal, the largest private sector project in the country to date, is expected to generate significant benefits in employment, export earnings, and infrastructure development. IFC fostered the project by serving as legal coordinator and preparing an independent detailed analysis of economic results and environmental and developmental impacts. IFC also supported the project with $120 million in senior and subordinated loans for its own account.

2.10 Empirical Literature Review

According to (Tsegaye, 2016), industrialization is the process building up a country‟s capacity to convert raw materials into new product. It involves a growing complexity of production system, reliance on primary or secondary economic activities and an increase in output.

Some of today‟s advanced countries planned their industrialization policies earlier to ensure a well planned development trajectory. In the case of Ethiopia, while awareness about the need for industrialization is traced back to the early 1960s, the design of a comprehensive industrial strategy with structural transformation in mind has come with the 2004 declaration of Ethiopian Industrial Development Strategy Document. Though a favorable policy package to introduce and develop a modern economy was in place during the imperial regime, there was not any deliberately outlined and explicitly specified industrial policy to accelerate industrialization. The 2004 Documents was therefore better in that it put in place an articulated industrial development strategy for the first time.

Creation of Enabling Environment: the 2004 Document discusses the basic enabling environment to speed up industrialization in Ethiopia. These are ensuring macroeconomic stability; the creation of modern and development-friendly financial sector; availing reliable infrastructure services such as road, railway, air transport, telecommunication, electricity and water supply services; implement an effective human resources development agenda; building an efficient, transparent and accountable bureaucracy and system of governance; and the establishment of a sound, efficient judiciary system. Without ensuring these enabling environments, the private sector cannot be the main driver of industrialization in the country.

Creating an enabling environment is important for the accumulation of capital and skill during the change in the productive structure. However, in the Ethiopian context, fundamental issues related to inward and outward orientation of the industrialization policy and the appropriateness of the organization structure of industrialization are missing.

Policy orientation and organization forms affect the modeling and performance of industrialization. The inward or outward orientation of the policy affects resource allocation in manufacturing. For instance,

should priority be given to the establishment of consumer goods industries or the development of capital goods? Organizational structure affects the division of tasks and responsibilities between the federal government and regional states in undertaking industrialization. The federal government can take the responsibility of establishing heavy industries such as chemical and metallurgy, while regional governments are advised to engage in the task of establishing light industries such as food processing and consumer goods.

Industrial Policy Orientation: what is the relevant industrialization policy orientation during the initial phase, when there is a resource to transform from agriculture to a mix of industry/service sector? Should the Ethiopian government follow an inward-oriented industrialization policy like American countries or an outward-oriented policy like East Asian countries?

These two strategies are commonly known as Import Substitution Industrialization and Export-Oriented Industrialization, respectively. The underlying goal of Import Substitution Industrialization is to reduce a country‟s dependence on the importing of manufactured goods. This is achieved through complex policy measures:

- Giving protection to domestic industries;
- Imposing high import tariffs;
- Restriction of import licensing;
- Subsidizing import-substitution industries; and
- Providing them with cheap raw materials and energy, tax benefits and overvaluing exchange rates.

The Export-Oriented Industrialization policy uses measures that are perhaps opposite to Import Substitution Industrialization. It encourages the exporting of goods for which the country has a comparative advantage. For instance, the 2004 Industrialization Strategy dictates that the meat, textile and leather processing sub-sectors, which the government considers to have a comparative advantage, should penetrate the international markets. Export-Oriented Industrialization opens domestic markets to foreign competition as well, reducing tariff barriers, and devaluating the national currency to encourage export.

Now the issue becomes which way should Ethiopia move forward, what are the context-and how does these relate to the country‟s current industrial policy choice?

Between 1958 and 1992, the government of Ethiopia followed the Import Substitution Industrialization policy. The three successive development plans (1958-1962, 1963-67, and 1969-74) of the imperial government emphasized a private sector-led import substitution policy, while the Ten Year Perspective Plan of the Dergue regime adopted state-led import substitution industrialization. However, the country did not move substantially forward in its drive to industrialize.

The EPRDF‟s rule marked a shift in the country‟s policies. Initially it followed a neutral policy and since the early 2000s, it has opted for an Export-Oriented Industrialization policy. This policy‟s direction, though there is issues that need to be addressed, has led the country to double-digit industrial growth. In fact, the past five years of GTP plan period have been a success, as the manufacturing sector grew at a rate higher than the growth of the overall economy. The growth rate has been significant because the country is at a low base of industrialization. Therefore, whatever is achieved gives a leapfrog growth picture from the outset.

(Kaldor, 2005) laid out a four-stage model of industrial development. The first stage is characterized by the emergence of a local consumer goods industry, which reduces dependence on imported consumer goods. The machinery and equipment needed to produce items of consumption are produced either in-house or imported. In the second stage, domestic production of consumer goods provides the basis for net exports of these goods. The third stage, which may occur simultaneously with the second, involves substitution of imported capital goods with locally made machinery and equipment. The fourth stage occurs when a country became a growing exporter of capital goods (heavy industries).

Ethiopia is currently at the first stage of the industrial evolution. In rural Ethiopia, population growth has increased the number of subsistence households and their consumption and input requirements. It has also increased the volume and growth rate of the labor force actively participating in rural labor market. Population pressure has created consumption and employment demand pressure in rural areas.

To create employment for the surplus labor and to supply the consumption requirement of the households, it is necessary to establish consumer goods industries. This means the country should replace manufactured products imported from other countries by products manufactured at home for

reasons of balance payment and sustained growth. There is a need for substantial protection of domestic manufacturing industries. In other words, at this stage the country should adopt an Import Substitution Industrialization policy.

Spatial and Organizational Structure of Industrialization: an appropriate organizational structure is a prerequisite for the proper management of industrialization. Enabling environmental factors focuses more on procedural reforms; they do not address organizational structure, which is also a relevant element in the success of industrialization. An organizational structure refers to a system by which industrialization tasks and responsibilities are formally allocated among the federal and regional governments. There are two approaches in the design of organizational structure: centralization or decentralization.

In Ethiopia, industrialization has long been administered centrally. This type of administration is needed for the provision of a uniform policy throughout the country, to compensate for the lack of skill at lower level of government and to minimize corruption. However, industrial agglomeration and concentration may lead to a high concentration of industries in small urban areas. This could result in income disparity and poverty in many countries because economic opportunities will concentrate in the areas in which industries have agglomerated.

Ethiopia, which is now aspiring for rapid industrialization, should learn from the experience of other countries to avoid the unintended consequences of industrialization by following a decentralized industrial development approach.

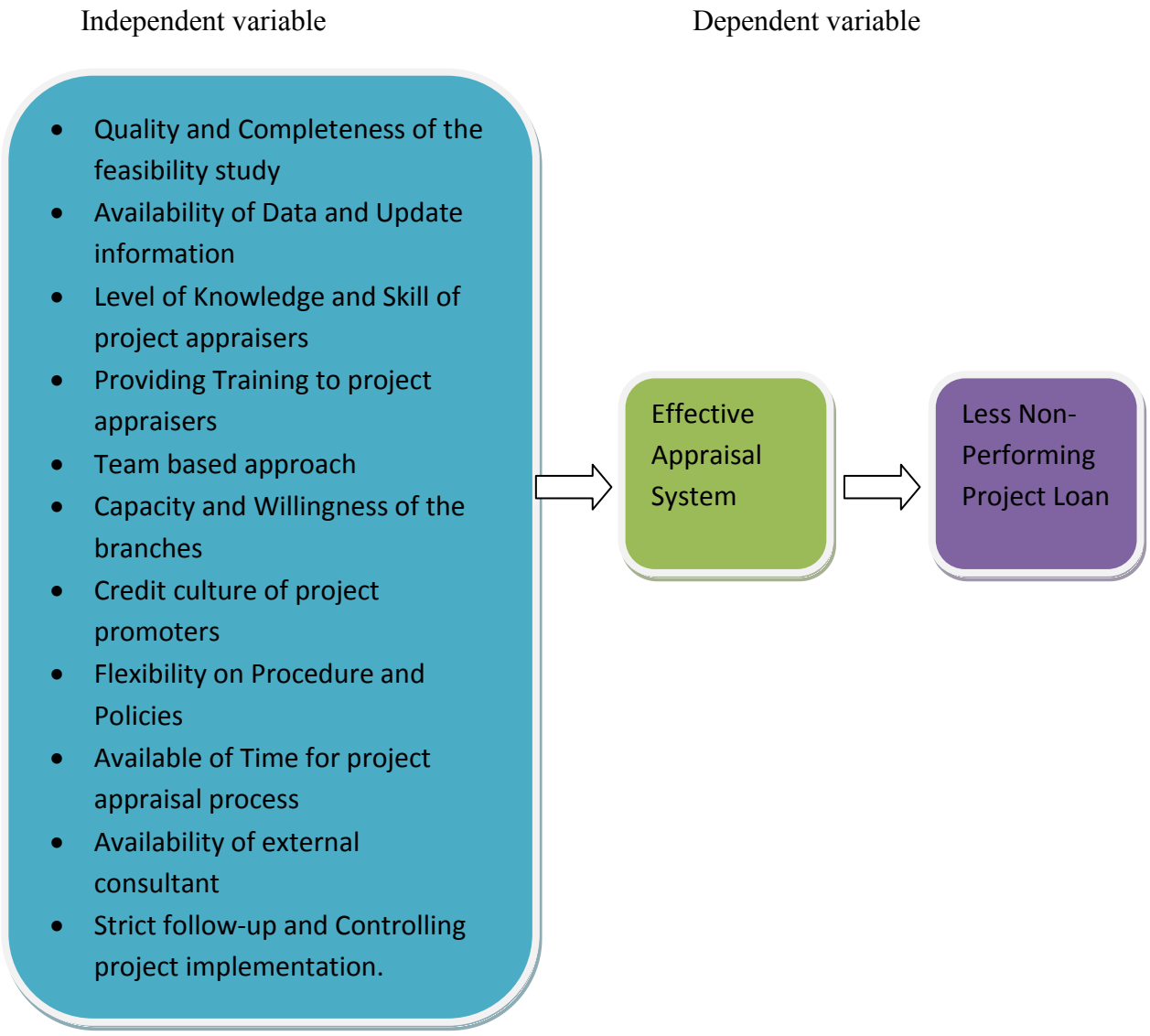
Manufacturing industries have the capacity to absorb surplus labor in the rural areas, which increases due to population growth. Besides, as agriculture grows, it further releases labor. A decentralized industrialization strategy would help to provide employment for the surplus labor before it migrates to urban areas and put unnecessary pressure in cities in the provision of social service facilitates and utilities.

Both the Import Substitution Industrialization policy and Industrial decentralization favor countries like Ethiopia, since they reduce the pressure they encounter on foreign currency, which at this time is in critically low supply-and spread the benefits of growth to more people throughout the country.

The Ethiopian government should therefore ensure geographic balance in developing infrastructure facilities. In addition to this, it should attempt to lure investors to locate their industries on the peripheries of the country or rural areas, including moving their industries from the centre through tax incentive, secondary city or growth pole, and supporting the sub regional development.

It is through these strategies that dispersion of industries to rural areas, sectoral linkage and economic distribution can be achieved. Countries that have managed this have realized broad-based development.

2.11 Conceptual (Analytical) Framework



Source: Own Survey, 2016

Analytical Model of Effective Appraisal System

From the above model one can understand that in order to have less non-performing project loan the bank has to have an effective project appraisal system. Thus effective appraisal system depends on various factors described on the above model. Therefore, these factors should be analyzed to know whether the bank has an effective appraisal system or not.

CHAPTER THREE

4. METHODOLOGY

In this chapter the research paper outlined the techniques of data collection and its analysis method. It also describes research design, sampling techniques and some ethical consideration.

3.1 Research Setting

The data collected from Development Bank of Ethiopia specifically members of Project Appraisal Division. All staff members under the division were participated except for those who are not willing to be participated.

3.2 Organizational Context

The Development Bank of Ethiopia (DBE) is a state owned development finance institution. DBE is supervised by the Public Financial Enterprises Supervising Agency. A Board of Management (BOM) consisting of nine senior government officials administers the Bank. The President of the Bank also attends the regular meetings of the BOM as a non-voting member. These two apex bodies (PEFA and BOM) are, among others, responsible for issuing major policies of the Bank, approval of its strategic and operational plans as well as the close and regular monitoring of the Bank‟s operations (Annual Report DBE, 2014/15).

Overseeing the operations of the Bank is the direct responsibility of the top Executive Management Committee (EMC), which consists of the President and four Vice Presidents. The President chairs the EMC and acts as the official representative of the Bank. A Management Committee comprised of twenty five members is, on the other hand, responsible for the day-to-day management of the Bank‟s operational activities. The Bank also has 5 Regional offices, 12 branches and 20 sub branches (Annual Report DBE, 2014/15).

Pertaining to good governance the Bank‟s management is structured in transparent way and that decision taken and their enforcement are done in a manner that follows rules and regulations with developed policies and procedures. For effective implementation of policies and procedures the Bank has established Compliance and Risk management and Internal Audit Committee. Ethical conduct and complaint management is also part of DBE culture. It has established Ethics and Compliant management once under the direct supervision of the President.

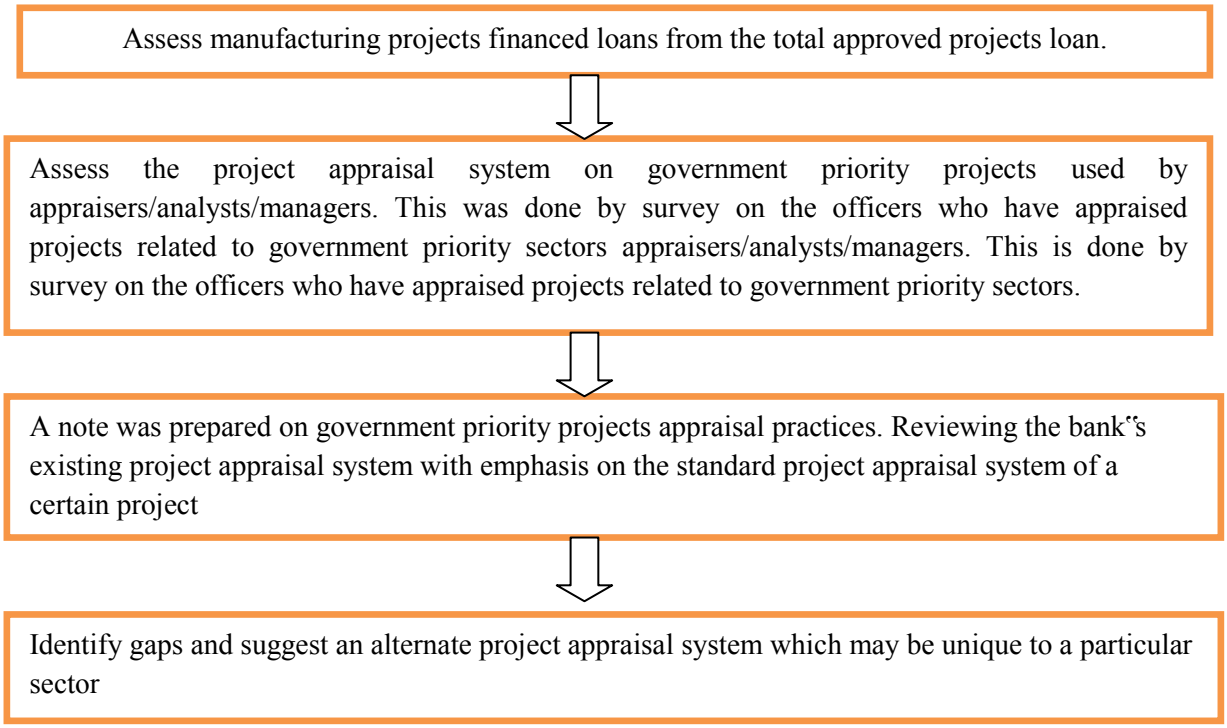
The bank has many internal and external factors like any other financial institutions which include the following factors. Internal factors include weak in saving mobilization, turnover of skilled manpower, and lack of using up-to-date information. External factors also include highly dependent on Government based policies and strategies and unavailability of similar competent developmental financial institution

3.3 Research Design

This research employed both quantitative and qualitative research method. Hence, the research questions of this study answered on the following research method or instruments:

With regard to the share of manufacturing project finance approved by DBE from the total project approved loan amount the paper employed quantitative secondary data. The study used qualitative and primary data collection instrument for the effectiveness of project appraisal system of the DBE. Whereas related to the causes of project failures the paper applied qualitative and primary data collection instrument as well as applied the same instruments for the finding of the main challenges in DBE‟s project appraisal system.

The research implemented the following procedures



3.4 Population and Sample

The project appraisal process of the DBE has two wings the Credit Appraisal and Credit Management. The total population is 40. There are two team leaders and an interview conducted with both the two team leaders. In Project Appraisal there are 38 employees. The researcher considered all 38 project appraisers for primary data collection.

Table 3.1 Types of Respondents, Population Size, Sample Size, Sampling Techniques, & Tools of Data Collection

N0.	**Respondents**	**Popn. Size**	**Sample size**	**Tools of Data Collection**
1	Project Appraiser Team (Experts & Analysts)	38	38	Questionnaire
2	Team Leaders (Appraisal & Management)	2	2	Interview
Total		**40**	**40**	

3.5 The Instrument and Its Validation Process

Both the questionnaire and the interview had been evaluated by the selected senior project appraiser for further comments and the researcher included the comments provided by them hence finally distributed to all employees.

3.6 Data Collection Procedure

First the researcher obtained a support letter from PADM and submitted to DBE Human Resource Department. The HRD gave an instruction to project appraisal division for primary data collection and Corporate Services for secondary data collection. Finally the researcher obtained good service from these two organs.

3.6.1 Quantitative

The quantitative research method had been undertaken by delivering questionnaires to the whole population. The types of primary data employed in this research involved both open-ended and close-ended questionnaire that were delivered to project experts, project analysts and appraisers. The credit experts and credit analysts though they have varying ranks/grades they were doing the same tasks with different level of exposures

3.6.2 Qualitative

The type of qualitative research technique applied through interview. Unstructured interview provided to the two Team Leaders of project appraisal division in the DBE. Therefore, all population project appraisers and both the two team from Project Appraisal Division were considered in the questionnaire and in the interview respectively.

3.7 Ethical Consideration

Ethical Considerations can be specified as one of the most important parts of the research. Dissertations may even be doomed to failure if this part is missing (Bryman & Bell 1995). Therefore, in this research issues related to research ethics were given weight to make the finding more scientific.

Every respondent participated by keeping their willingness and consent. Respondents also fully protected their privacy and thus they would not be exposed for any harm in related to this research. Any data that obtained for the purpose of this research were kept in confidential.

Both aims and objectives of the study have been developed by considering neither deception nor exaggeration.

3.8 Method of Analysis

The data analyzed in descriptive method of analysis using tabulation, graphs, percentages and ratios by using SPSS Version 20. Descriptive method of analysis used as it has advantages that provides a multifaceted approach and illustrative how people experienced in the mater. It also analyzed in a form that makes it easy to understand and interpret so as to recommend and conclude the findings.

CHAPTER FOUR

4. DATA PRESENTATION AND ANALYSIS

The study is intended to assess and describe the general system of project appraisal for the Government priority projects especially on manufacturing projects by the Development Bank of Ethiopia. This chapter elaborates the data gathered from project appraisal departments of the DBE; questionnaire response from project appraisers. Project appraisal heads interview also analyzed.

Concerning the questionnaire, out of 38 job performers to whom the questionnaires were distributed 31 (81.6%) of them successfully completed the questionnaire and returned. The data obtained through the questionnaire, interview, and document analysis were organized, in tables, analyzed and interpreted in order to get meaningful result.

To estimate the reliability of the questionnaire a pilot sample of 5 employees (which was above 10% from the total population) were selected and Cronbach Alpha was computed by SPSS software. It is well known that Cronbach Alpha uses whether the response of a given questionnaire is to be internally consistent or not and to determine if the questionnaire scale is reliable.

Table 4.1: Cronbach Alpha Coefficient for each Variable

Items	Cronbach Alpha	
	10% Pilot Sample	Total Sample
Personal information questions (from Qes. 1 to 4)	0.797	0.953
General information on Manufacturing project appraisal questions (from 5 to 14)	0.686	0.843
Factors affecting Project Appraisal (12 questions)	0.877	0.997

Source: SPSS output

Table 4.1 shows both the total and pilot sample test result of reliability in the questionnaire.

All the items in the case of the total sample have Cronbach Alpha value of greater than 80% it showed that the higher reliability of the questionnaire. According to (Santos, 1999) acceptable reliability coefficient is 70% and above.

4.1 Share of Manufacturing Project Appraised and Financed by DBE's Credit Portfolio

This part of the chapter deals with presentation, analysis and interpretation of the secondary data collected from DBE various sources. The tables presenting secondary data is constructed mainly to assess to what extent DBE is involved in manufacturing project appraising and financing in the country‟s developmental projects. In order to identify to what extent the bank supports the country prioritize projects specially in manufacturing so as to know its role in playing the economic growth of the country through financing. Comparison among appraised and approved of Agriculture, Financial Service, Mining and Energy, Service and Consumer loan will be listed below. DBE started project financing heavily on Government priority projects like manufacturing, agriculture, agro-processing and mining and extraction industry mostly engaged in exporting in line with GTP I.

Table 4.2 Manufacturing Project Loan Approved In „,000 birr

Year	Other Project Loan Approved	Manufacturing Project Loan approved	Total Project Loan Approved	% of Manuf. Project Loan Approved	Total % Change Mfg. Project Loan Approved
2010/11	3,989,543	7,885,136	11,874,680	66.4%	-
2011/12	4,803,759	10,185,343	14,989,102	68.0%	29.2
2012/13	6,600,419	12,286,163	18,886,582	65.1%	20.6
2013/14	6,248,954	16,274,309	22,523,263	72.3%	32.5
2014/15	8,333,082	19,029,385	27,362,467	69.5%	16.9
Average percentage increase in manufacturing sector project loans				68.26%	24.8

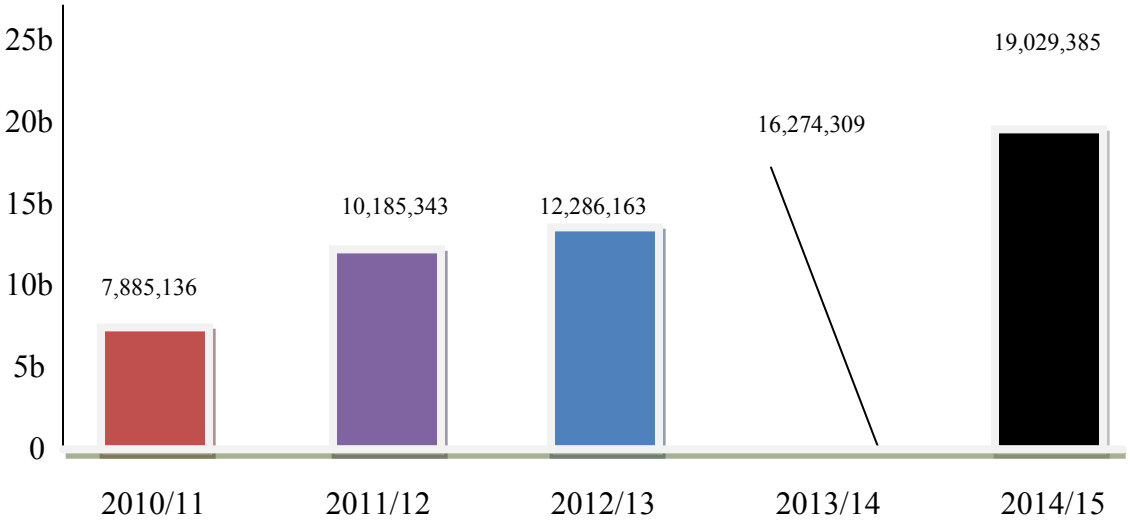
Source: Corporate Service, Performance Management of DBE

The manufacturing project appraised and financed over the five years study period is depicted in Table 4.2. column two indicates that the total amount of projects approved in Birr without manufacturing projects, column three indicates only the manufacturing project approved amount in Birr without other projects of the DBE. Whereas column four shows the total number of projects approved in Birr including manufacturing projects. The above table indicates the bank‟s contribution to manufacturing

sector was increasing at inconsistency rate of the study years. This amount of huge financing supports the national agenda of growth and transformation plan held by government of Ethiopia. The total manufacturing sector project loans have been remarkably increasing over the study period i.e. on average it increases by 24.8%. Together with the increasing trend of the manufacturing projects, the financing capacity of the bank also increases from time to time. The increment in manufacturing project loan of the bank is mainly due to the Government priority projects which supports the country economic growth.

Regarding to comparison of manufacturing financing with other economic sector, the share of manufacturing projects from the total loan portfolio of the bank covers 66.4%, 68.0%, 65.1%, 72.3% and 69.5% for the period 2010/11-2014/15 fiscal year for five years under study respectively. This clearly shows that DBE has financed huge amount of money for manufacturing projects that supports the national agenda of the growth and transformation held by the Government. From the above table, manufacturing projects financing have been increasing over the study period i.e. on average increase 25% in year 2010/11-2014/15. The increment in manufacturing project financing loan during the study year is mainly due to the enormous manufacturing project creation and development in the country from GTP I of the country and DBE‟s inevitable commitment to support the plan and the project promoters too.

Graph 4.1: Manufacturing Project loan approved In „000 birr



Source: Corporate Service, Performance Management of DBE

Graph 4.1 indicated that from 2010/11 to 2014/15 of five years study period‟s trends indicate a rapid growth in manufacturing projects, where from 7.8 billion birr in 2010/11 to 19.02 billion birr in June 2014/15. The main reason was that the Bank prioritize manufacturing sector in line with the country‟s GTP I. As the DBE is a state bank, it is mandatory and required to facilitate the financing of prioritize areas like manufacturing engaged in export. This policy solved the financial problem which existed for a long period of time and made the manufacturing sector to be stagnated and insignificant contribution to GDP, the current trend seems to resolve financial constraints but diversion of fund, providing of manufactured exporting goods to local market etc are still unresolved problem as response of both the project appraisers and team leaders.

It is well known that Development Bank of Ethiopia is owned by the Ethiopian government. Hence, it had to line up its corporate strategy and goal with the then Government priority policy and strategy for the overall economic growth i.e., GTP I. Thus, DBE inclined to finance mainly in manufacturing and agriculture engaged in export. From the total project loan approved, yearly on average 13.13 billion for manufacturing, 3.3 billion for agriculture have been disbursed during the study period. Especially the manufacturing sector yearly on average took 68.26% of the total project loan approved. Therefore this shows that DBE implemented what the Government intended to do in the last five year GTP plan.

Table 4.3 Sectorial Distribution Loan Disbursement by Economic Sector In „000 birr

Year	Agriculture	Manufacturing	Mining & Energy	Financial Services	Services	Consumer
2010/11	2,386,809	7,885,136	6,046	900,789	695,899	-
2011/12	3,052,017	10,185,343	-	918,220	833,522	-
2012/13	4,014,165	12,286,163	-	1,808,691	777,562	-
2013/14	2,638,270	16,274,309	114,413	2,617,793	804,263	74,215
2014/15	4,259,405	19,029,385	173,879	3,041,181	757,898	100,719

Source: Corporate Service, Performance Management of DBE

As indicated in table 4 manufacturing sector shows an increasing trend from 2010/11 up to 2014/15 as well as agriculture shows an increment except the year of 2013/14. We can understand from the above table that the approved project finance focused on those special sectors which the Government believed huge impact on the country economic development by creating huge employment opportunity and earning hard currency.

Table 4.4 Manufacturing Sector Non Performing Loan (NPL) In „000 birr

Year	Manufacturing	NPL amount	NPL in %
2010/11	7,885,136	622,925	7.9
2011/12	10,185,343	1,894,473	18.6
2012/13	12,286,163	1,056,610	8.6
2013/14	16,274,309	1,334,493	8.2
2014/15	19,029,385	2,378,673	12.5

Source: Corporate Service, Performance Management of DBE

Project loans should be classified as NPL as payment of principal and interest are past due by three months (90 days) or more. As shown in table 4.4 the manufacturing sector NPL ratio on the five year 2010/11 up to 2014/15 average is 11.6 % which is above the NBE requirement under Directive number SBB/43/08 and international standard (5%). This indicated that some problems existed in project appraisal and financing. Therefore, manufacturing projects need detail study before approval and strict follow up after approval and implementation.

4.2 Analysis and Interpretation of Primary Data on the Effectiveness of Project Appraisal System

This section deals with analysis and interpretation of the primary data collected through questionnaire and interview. After the completion of relevant data collection, descriptive analytical tools such as percentages, tables and ratios, ranking of the variables as means of measuring. As mentioned in the methodology of the study structured and unstructured questionnaire based on the work flow of the credit process has been designed. In this section the project appraisal of the bank will be analyzed based on the questionnaire.

4.2.1 Analysis of Employees response

In this section part of analysis includes employees‟ personal data, project appraisal process of the bank, and challenges and prospects of manufacturing project appraisal.

4.2.1.1 Profile of Respondents

In this section, data collected through questionnaire from project appraisal experts and their team leaders work experience, educational level, marital status and sex in the project appraisal area of the bank of the sample respondents is analyzed. The data and analysis are put consecutively as follows:

Table 4.5 Work Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than or equal to 5 Years	2	6.5	6.5	6.5
	6 to 10 years	12	38.7	38.7	45.2
	11 to 15 years	17	54.8	54.8	100.0
	Total	31	100.0	100.0	

Source: Respondents of questionnaire

As shown in table 4.5 the lion‟s share (54.8%) of the member of employees in the bank has experience between (11-15) years. The others have worked for (6-10 years) that accounted for 38.7% of the total respondents. Only 6.5 % of the sample employees have experience of less than or equal to 5 years.

In sum up into two categories of experiences, 6.5 % (less than or equal to5 years) and 93.5% (greater than or equal to 6 years) of the bank employees are under project appraisal of the DBE. Since 93.5% of the employees have greater than or equal to 6 years of work experience coupled with the nature and complexity of projects, employees have sufficient required experience but in other bank work unit not in appraising project proposals specifically of manufacturing projects.

Table 4.6 Marital Status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	4	12.9	12.9	12.9
	Married	27	87.1	87.1	100.0
	Total	31	100.0	100.0	

Source: Respondents of questionnaire

From table 4.6 one can understand that majority of the respondents were married (87.1%), while 12.9% were unmarried

Table 4.7 Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	23	74.2	74.2	74.2
	Female	8	25.8	25.8	100.0
	Total	31	100.0	100.0	

Source: Respondents of questionnaire

As can be seen from table 4.7, 74.2% of the respondents are male whereas 25.8% are female.

Table 4.8 Educational Level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	BA	25	80.6	80.6	80.6
	MA	6	19.4	19.4	100.0
	Total	31	100.0	100.0	

Source: Respondents of questionnaire

As per table 4.8 regarding to educational level is concerned, the respondents were predominantly degree holders (80.6%) and MA (19.4%). There were no respondent who has PHD level. This implies that the respondents had the required educational levels.

4.2.1.2 Challenges Faced by Project Appraisers

Table 4.9 Lack of Quality and Completeness of Feasibility Study Documents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	8	25.8	25.8	25.8
	Agree	23	74.2	74.2	100.0
	Total	31	100.0	100.0	

Source: Respondents of questionnaire

As shown in the table 4.9 above, respondents were asked concerning the degree of their agreement on "The proposal submitted by customers have low quality and are not complete" as one of challenge of manufacturing project appraisal in the DBE. Accordingly, 100% or 31 of the respondents expressed their agreement stating that it was a challenge by choosing "Strongly Agree" and "Agree". Therefore, one can infer from the above responses that the absence of quality and completeness of project proposals submitted by customers was one challenge of manufacturing project appraisal in the DBE

Table 4.10 Level of Agreement with Challenge of the Availability of Data & up-to-date Information Source

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	4	12.9	12.9	12.9
	Agree	25	80.6	80.6	93.5
	Disagree	2	6.5	6.5	100.0
	Total	31	100.0	100.0	

Source: Respondents of questionnaire

Concerning lower availability of data and up to date information outside DBE, 93.5% or 29 employees of respondents strongly agreed and agreed. Only 6.5% or 2 of them disagree. Therefore, lower availability of data and up to date information outside DBE was one of the major problem of manufacturing project appraisal in DBE.

In general the availability of data and up to date information was not good enough in depth, type and specification. The team leaders of the project appraisal process replied that data and information is not reliable, updated and crude that cannot be used for specific purposes. In addition to this, the proposals

have low quality and are incomplete since they are prepared by least cost for the purpose of cost reduction.

Table 4.11Level of Knowledge and Skill of Project Appraiser

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	14	45.2	45.2	45.2
	Neutral	15	48.4	48.4	93.5
	Disagree	2	6.5	6.5	100.0
	Total	31	100.0	100.0	

Source: Respondents of questionnaire

Concerning level of knowledge and skill of project appraiser was also assessed whether it was a challenge of manufacturing project appraisal in DBE or not. In this regard, 45.2% or 14 of them agreed that it was a challenge. Only 6.5% or 2 of the respondents disagree. Even those respondents who disagreed did not deny that they lack the skills in appraising due to the complex nature of manufacturing projects appraisal.

Table 4.12 Training Given to Project Appraiser

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	23	74.2	19.4	93.5
	Neutral	6	19.3	74.2	19.4
	Disagree	2	6.5	6.5	100.0
	Total	31	100.0	100.0	

Source: Respondents of questionnaire

On the item related to" low frequency of training given to project appraisers" was another challenge of manufacturing project appraisal DBE. This is because 74.2 % or 23of they agreed while 19.3% or 6 neither agree nor disagree. But 6.5% or 2 of the respondents disagree. This shows that there is a need to deliver training on manufacturing project appraisal to the DBE staff performers.

Table 4.13 Team Based Approach

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	16	51.9	41.9	93.5
	Neutral	13	41.6	51.6	41.9
	Disagree	2	6.5	6.5	100.0
	Total	31	100.0	100.0	

Source: Respondents of questionnaire

On the item related to "No team based approach in appraising manufacturing project requests" asked to respond either to agree or to disagree. In this regard, 51.9% or 16 of the respondents agree on the item stated as a challenge for manufacturing project appraisal. Whereas 41.6% or 13 of the respondents neither agree nor disagree and 6.5% or 2 of them disagree as it is a challenge. Therefore, it is logical to infer from the above analysis that lack of team based approach in appraising manufacturing project requests was one of challenge of project financing in DBE.

Table 4.13 Capacity and Willingness of Branches

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	15	48.4	48.4	48.4
	Neutral	8	25.8	25.8	74.2
	Disagree	8	25.8	25.8	100.0
	Total	31	100.0	100.0	

Source: Respondents of questionnaire

With regard to capacity and willingness of branches, 48.4 % or 15 respondents agreed as it is a challenge. On the other hand 25.8% or 8 respondents disagree that it is not a challenge and equivalently 25.8% or 8 respondents neither agree nor disagree. Thus we can conclude that the branches are not fully support in advising the first project finance request.

Table 4.14 Project Promoter"s Credit Culture or History

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	6	19.4	19.4	19.4
	Agree	12	38.7	38.7	58.1
	Neutral	13	41.9	41.9	100.0
	Total	31	100.0	100.0	

Source: Respondents of questionnaire

On the item “poor credit culture of customers of the bank” was presented to the respondents whether it was a challenge of manufacturing project appraisal in the DBE or not. Accordingly, 58.1% or 18 of the employees agreed at different level of agreement as it is one challenge; the remaining 41.9% or 13 of the employees neither disagree nor agree with the item being a challenge. One can generalize from the above analysis that poor credit culture of project promoter is a challenge in manufacturing project appraisal in DBE.

Table 4.15 Flexibility on Banks Credit Policy & Procedure

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	19	61.3	61.3	61.3
	Agree	10	32.3	32.3	93.5
	Disagree	2	6.5	6.5	100.0
	Total	31	100.0	100.0	

Source: Respondents of questionnaire

From the table 4.15 the respondents asked to reply their agreement level on whether there was lack of flexibility in the bank‟s credit policy and procedure or not. 93.6 % or 29 of the respondents agree in different level that it is a challenge. Only 6.5% or 2 of them disagree that it was a challenge.

Generally we can conclude from the above analysis that lack of flexibility of the bank‟s policy and procedure was also a cause of manufacturing project appraisal in DBE.

Table 4.16 Allotted Loan Delivery Time

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	4	12.9	12.9	12.9
	Agree	25	80.6	80.6	93.5
	Disagree	2	6.5	6.5	100.0
	Total	31	100.0	100.0	

Source: Respondents of questionnaire

Based on the employees‟ response as shown in table 4.16, “less loan processing time” 93.5% or 29 of the total respondents agree in different level. Only 6.5% or 2 of the respondents disagreed with the statement. This shows that an improvement needed to the time allotted is highly significant.

Table 4.17 Availability of Consultant

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	2	6.5	6.5	6.5
	Agree	27	87.1	87.1	93.5
	Disagree	2	6.5	6.5	100.0
	Total	31	100.0	100.0	

Source: Respondents of questionnaire

As in table 4.17 lack of properly trained consultants for manufacturing project feasibility study was the major challenges of project appraisal in the DBE that 93.5% or 29 of the respondents agree in different level on the idea that it was a challenge. On the other hand, 6.5% or 2 of them did not support that it was a challenge. Hence we can infer from this it is a major challenge.

Table 4.18 Availability of Information in DBE Internal Data Base

Data and information availability in the data base of the DBE‟s as required(internal data base)	Employees Response	
	Number	Percent
Yes	6	19.4
No	25	80.6
No response	0	0
Total	31	100

Source: Respondents of questionnaire

With regard to the availability of data and information in DBE‟s data base, as in table 4.18, 80.6 % or 25 of the employees agreed that there was no adequate data and information in DBE for the manufacturing project appraisal processing. From this response, inadequacy of data and information is a major challenge of project appraisal of the DBE.

4.19 Support Rendered by Research Unit

Support rendered by the research unit of the DBE in providing information data useful to undertake project appraisal process.	Employees Response	
	Number	Percent
Good	1	0.2
Medium	6	19.4
Low	24	77.4
Total	31	100

Source: Respondents of questionnaire

With regard to support rendered by the research unit of the DBE, as in table 4.19, 77.4 % or 24 of the employees respond that it is very low where as 19.4% or 6 responded that the support is medium. Only 0.2% or 1 respondent says it is good. Therefore we can infer that the research unit is very weak in supporting and providing available information to manufacturing project appraisal

4.3 Response Related to the Causes of Project Failure

In connection to project not succeed and its causes of failure 87.10% or 27 described that the main cause of projects failed is lack of strict follow up on the DBE‟s side after project loan was released. Whereas 12.90% or 4 of the employees replied that the main cause was due to the project promoters themselves by implementing the project without referring the feasibility study.

4.4 Summary of Respondents' Reply to Challenges of Project Appraisal System in DBE

Related to handling and processing of manufacturing projects request than the others, most respondents 24 (77%) of the respondents replied that they give high attention and special care as the Government also followed specially the request related to textile, garment and leather processing projects which had high impact in attaining the GTP I plan. The two team leaders from the interview also proved this special support. The other respondents 7 (23%) confirmed that they handled as same as other projects request. Thus one can concluded that the majority of the project appraisers were aware of the

government priority projects that had much impact on the success of the country economic growth. However 23% of the appraisers need some awareness regarding the government priority projects and it impact on the overall change of the country‟s economic development.

Regarding to the use of data resources for apprising manufacturing projects the majority of the respondents (87%) or 27 answered that they use the data provided by the project promoter feasibility study paper. This was also substantiated by their team leaders‟ interview. The remaining respondents (13%) or 4 used DBE‟s Research Division study papers. In this issue it is not wise that the project appraisers use only promoter‟s feasibly study papers as a source of data and this might mislead the decision.

Concerning the challenges faced by the appraisers related to manufacturing projects, (61%) or 19 of the respondents indicated the main challenge as lack of completeness on the feasibility study which is provided by project promoters. This also confirmed by one of the team leaders according to the interview. (19.4) % or 6 of the respondents main challenge is time constraint and the other (19.6%) or 6 of them describe their main challenge is the interference of the higher body for those projects which are not viable. One of the team leaders from the interview also proved the existence of interferences. Thus, it is very difficult for the DBE to appraise and finance manufacturing projects with lack of completeness as it entails huge risk of failure.

From various sectors which are appraised and financed by DBE, manufacturing and mining are the most challenging for appraising. According to the respondents (56%) or 17 of them consider manufacturing projects are very difficult to appraise whereas (44%) or 14 of the respondents said the most challenge to appraise is the mining and extracting sector.

In using of external institution as a source of data in appraising manufacturing projects from the appraisers (46%) or 14, (29%) or 9, and (25%) or 8 uses Ministry of Trade, Ministry of Industry and Central Spastics Agency respectively. However, all of the respondents replied that the information is not available on time and it takes too much time to update.

Referring to the project appraisal aspects most of the employees 74.2% 23 gave more emphasis on commercial aspects of the project where as 12.90% 4 of them emphasis on financial aspects. The remaining 12.90% or 4 of the respondents‟ give more attention on management aspects of the project. The result shows that the economic aspect of the projects is undermined during manufacturing project

appraisal in DBE as it contradicts with the Government special allocation of scarce resources to prioritize projects like manufacturing not only based on commercial aspects but more on the economic aspects of the project

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

Development Bank of Ethiopia (DBE) is the only bank in Ethiopia to finance a project without requesting collateral. Since the GTP I plan announced the DBE has financed projects which the government prioritized sectors like manufacturing in turn playing a major role in supporting the country aspire to become an industrialization nation and to reach a lower middle class state in year 2025.

In the past GTP I period, the bank approved up to an aggregate amount of birr 27.3 billion to various projects and most of the resources allocated to the Government prioritized projects like manufacturing sectors. The DBE, in the currently implemented in GTP II, planned to approve 76 billion birr mainly to prioritize areas of projects. Having this information, the DBE faces some challenges in manufacturing project appraisal in the last GTP I period over and above some opportunity.

Development Bank of Ethiopia (DBE) is engaged in financing projects like manufacturing sectors that are the current Government of Ethiopia prioritized sectors according to their role in playing to transform the current economic structure of agriculture base to industrialization base economy. Hence manufacturing sector is the first and main sector which the Government believed to accelerate the country economic transformation. The Government prioritized manufacturing sectors as the main deriver of the transformation as it alleviate the main chronic problem of unemployment, its ability to generate foreign currency and its role in import substitution.

5.1 Summary of the Findings

In order to solve the stated problem both primary and secondary data has been collected using questionnaire and interview comprising of various variables, and document sources of the bank respectively related to the problem. The collected data has been analyzed using descriptive method of analysis and output of the analysis was entirely based on SPSS Version 20.

Accordingly, the major findings of the research are:

- The share of approved manufacturing projects for the last five years of GTP I took 68.26% from the total project loan approved amount by DBE.
- There is a lack of effectiveness of project appraisal system in the DBE.

- Lack of follow up and control after project approved and financed.
- There are many challenges faced by project appraisers during project appraisal process.

5.2 Conclusion

Based on the above facts and Government direction, DBE financed manufacturing projects which have a lion share of from the total project approved loan. The manufacturing sector financed share were 66.4%, 68.0%, 65.1%,72.3% and 69.5% in the year of 2010/11, 2011/12, 2012/13, 2013/14 and 2014/15 respectively. By doing this, the DBE has been playing a vital role in financing projects like manufacturing sector so as to contributing much on an effort in attaining a country aspiration to economic development (Growth and Transformation Plan). Nevertheless, manufacturing project appraisal and financing in DBE has various drawbacks and constraints which lead to higher rate of NPL ratio which is above international standard rate and NBE requirements (5%). Those problems arise from various angles.

The major constraints of manufacturing project appraisal in DBE were low level of quality and completeness of project feasibility study provided by project promoters, unavailable of reliable and quality data and up to date information related to manufacturing projects. Poor credit culture or history of project promoter, lack of well trained and experienced consultants for complex manufacturing projects study and poor project feasibility study preparation by project promoters.

Moreover, the support of the research unit of DBE was very weak in providing a reliable data and information which is helping in manufacturing appraisal process. The Bank was also weak in holding and reserving various reliable data which helps for project appraisers for processing. The DBE has failed to provide frequent training program for manufacturing appraisers who deals with various complex and huge projects and lack of team based approach for manufacturing project appraisal process is also existed in the Bank.

The Bank has lack of a good relationship with those external institution like Ministry of Trade, Ministry of Industry, Central Statics Agency etc which has and provide useful information and data, as the branches first contacted by a project promoters, they have to have a basic knowledge and willingness to advise the customers in turn it saves time and to avoid unnecessary pressure for appraisers and project owners. But it not existed in DBE.

The DBE project appraisers were also inclined to commercial aspects of the project proposal than the economic aspects. This biased may undermine projects with huge economic impacts with less commercial viable projects. Consecutively, it affects the country‟s economic endeavors.

The DBE is also very weak in follow up and control of projects after the loan released. This might lead to diversion of funds to other projects, selling of manufactured exporting goods to local market, etc

The contribution of manufacturing projects appraisal and financing contribute to the DBE profitability from year to year despite it is not main objectives, increases its foreign currency generating from manufactured exporting goods so as to the country, benefiting the country in import substitution, by appraising and financing manufacturing projects, it minimizes unemployment rate in the country. Consequently, it is plays a vital role in economic development of the country.

5. 3 Recommendation

On the bases of the summary of finding and conclusion, the following recommendations are forwarded:

- The DBE must prepare a system for its branches which enables them to advise and communicate with the project promoters properly by giving additional training and guide line check list for documents required so as to reduce the burden of work on the project appraiser side and to save time of the project promoter.

- The DBE must maintain a good relationship with external institutions (Ministry of Trade, Ministry of Industry, and Central Statistics Agency etc) which have and provide reliable data and up to date information.

- The DBE research unit has to exert its maximum effort to the extent of providing and advising the project appraisers with a necessary data and up to date information.

- The DBE must increase a team based approach for its project appraisal process.

- As the main purpose of project appraisal in the DBE from Government perspective is to finance those projects which have highly economic benefit to the country. However, the Bank concentrates on the commercial aspects of the project. This undermines the economic benefit of

the project as a whole therefore the bank must consider the economic aspect of the project than merely on commercial aspects only.

- The information provided by project promoters should be authenticated by other third party organs.
- The DBE must strictly follow up the project implementation to avoid fund diversion by the project promoters, cheek whether the manufactured export goods not to be supplied in local market etc. In doing so the bank can minimize its existing NPLs ratio as well as the bank ensured that the scarce resource of the fund provided to projects for the intended goals. Hence, the bank able to accomplish its responsibility effectively in the country economic development.

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