

EXTRINSIC FACTORS AND INVESTMENT PROJECTS FAILURE IN RWANDA. CASE OF INVESTMENT PROJECTS FINANCED BY DEVELOPMENT BANK OF RWANDA.

Kagabo Marie Therese

Jomo Kenyatta University of Agriculture and
Technology,
Kigali, Rwanda.

Dr. Mbabazi Mbabazize

Jomo Kenyatta University of Agriculture and
Technology,
Kigali, Rwanda.

Dr. Mbera Zenon

Jomo Kenyatta University of Agriculture and Technology,
Kigali, Rwanda.

ABSTRACT

Projects make a vital contribution to industrialization and hence the growth of a nation's economy. The importance of projects in the development of any nation cannot be overemphasized. Despite the increased project management awareness some projects still fail. The general objective of this study was to investigate the effect of extrinsic factors on the failure of investment projects in Rwanda. This research sought to answer these research questions: To what extent do political factors lead to failure of investment projects financed by Development Bank of Rwanda (BRD)? To what extent do environmental factors lead to failure of investment projects financed by BRD? To what extent do regulation and legal factors lead to failure of investment projects financed by BRD? And to what extent do economic factors lead to failure of investment projects financed by BRD. The research adopted descriptive design to collect the quantitative and qualitative data. The target population for the study was 58. The sample size of the study was 58 respondents from the three departments and project beneficiary who were purposively selected. Fifty-three respondents answered the questionnaires. The research study used a questionnaire as instrument for primary data collection. Secondary data was obtained from relevant literature like journals, internet and books. Quantitative data was analysed through the use of frequency distribution, mean scores and standard deviations. From the study, many factors were identified as extrinsic causes of investment project failure. In conclusion, the study found out that there were a number of extrinsic factors that caused investment projects failure among projects financed by BRD. In general, extrinsic factors contributed to some extent to the failure of investment projects. As part of recommendations, project managers should ensure commitment to the key stakeholders and re-commitment whenever change arises and visibility of these commitments. In addition, monitoring and evaluation can lead to timely implementation of projects, the right project organizational structure as well as good financial accountability and management, provision of sufficient resources as and when required and good project resource planning and controlling

Key words: Political factors, Environmental factors, Legal factors, Economic factors and Project failure

1.0 Background.

Projects make a vital contribution to industrialization and hence the growth of a nation's economy. The importance of projects in the development of any nation cannot be overemphasized. This is demonstrated in various literatures explaining the success and failure of projects. Although projects are said to be important, its implementation can be an uphill task. Various researchers have discussed project management as a technique to help prevent against failure in projects. Others have established checklists to help prevent failure. Despite the increased project management awareness and these checklists, some projects still fail (Atkinson, 1999).

Projects remain the instruments of choice for policy makers in development. Yet, paradoxically, the poor performance of projects and the disappointment of project stakeholders and beneficiaries seem to have become the rule and not the exception in contemporary reality (Ahsan & Gunawan, 2010). Dissatisfaction with project results and performance dates back to the 1950s (Khang & Moe, 2008). The project failure rate at the World Bank was over 50% in Africa until 2000 (the 2000 Meltzer Commission). The World Bank's private arm, the International Finance Corporation (IFC) has discovered that only half of its African projects succeed. In an independent rating, the Independent Evaluation Group (IEG) claimed that 39% of World Bank projects were unsuccessful in 2010 (Chauvet, *et al.*, 2010).

The investment project is the concrete motivation of some current expenses in the hope of future benefits. Its specific features, distinguishing it not only from current activities, but also from other types of projects, are: amplitude, finality and structure. The execution of any investment project is under the pressure of two factors: time and cost. For managers, but also for the other factors involved in the project, respecting the periods for execution and the consumption of resources (human, material, financial, technical) is a permanent preoccupation during execution. But for this they need adequate tools and techniques, both for the correct dimensions of the time and resource parameters and for later monitoring and control on site (Ahsan, 2010).

In the opinion of the researcher, the life-cycle of investment projects includes several stages, namely the stage of devising the concept, the stage of executing it and the stage of implementing it, which are characterized by clear results, their analysis and decision -making for the next stage. This staging of performing any investment project is utterly important for the introduction of evaluation, control and decision-making stages after each important stage. The progress of an investment project requires specific work methods and adequate principles, on condition of a systemic approach (Cooke Davies, 2002)

Several researchers, such as Flyvbjerg, *et al.*, (2003), have studied a large number of major infrastructure investment projects, and found that such projects often fail to meet expectations and agreed goals. The most frequently reported shortfalls are the failure to meet deadlines, exceeding budget and not delivering the specified quality. These shortfalls are usually linked to problems in planning or executing activities within a project. Another common category of shortcomings is the failure to deliver the functionality, benefit or contribution to business objectives intended upon initiation of a project. Projects sometimes do not deliver what the users need (Kreiner, 1995).

Project and Project Management take place in an environment that is broader than that of the project itself- external environmental factors and internal organizational environmental factors that surround or influence a project success. Miller, S. (2001), states that all projects are planned and implemented in a social, economic and environmental context, and as a result, have intended and unintended positive and/or negative impacts. He adds that project team should consider the project in its cultural, socio-international, political and environmental contexts.

Bank funded projects are very specific because of their unique environment. They are characterized by a rare complexity, the high delicacy and the relative intangibility of their ultimate objective of poverty reduction, their large number of heterogeneous stakeholders, the divergent perspectives among these stakeholders, the need for compromise, their charm in the eyes of politicians, the profound cultural and geographical gap between project designers and their beneficiaries, and the prevalence of rather bureaucratic rules and procedures (Ika, *et al.*, 2010).

The government of Rwanda has established a set of quantified development objectives for the years 2010 and 2020 in the Vision 2020 document. The government now intends to take a leading role in setting economic and financial policies and carrying out the investments necessary to achieve these objectives. In particular, the government believes that it must take an active role in financing the building the necessary physical and human capital infrastructure that will eventually increase the productivity of private investments (LTIF, 2006). As a policy lending institution, Development Bank of Rwanda (BRD) is positioned to spearhead development of the economy through provision of financing to projects that speed up the development of the economy. The bank works in order to meet its mandate of playing the foremost role in development of the country. In 2013, the bank registered remarkable performances in funding developmental projects in the priority sectors of the Rwandan economy. Among these, the biggest investment approvals were registered in the industry and service, followed by agriculture, fisheries and livestock sectors, with 77.5 percent of approved loans disbursed to the beneficiaries (BRD, 2013).

1.2 Statement of the Problem

The importance of avoiding project failure in a rapidly evolving project-driven 21st century cannot be over-emphasized. Attempts to understand the causes of project failure and/ or success have proven problematic, despite attempt by many practitioners and academics over the years. Project demands have constantly increased over the last decade and have driven our society into a constantly changing environment. Despite attempts to make project appraisal and delivery more rigorous, a considerable proportion of delivery effort results in project that does not meet user expectations and are consequently rejected.

Surprisingly, the focus of most international development research to date has been very narrow, examining projects and Project Management in general, despite the size of this industry sector, project proliferation, and the questionable outcomes of projects (Ahsan & Gunawan, 2010).

According to latest reports from the Ministry of Infrastructure during the handover of Kigali Convention Centre, contractors give poor service through poor documentation, poor decision making and extension of time variation during project implementation leading to stalling of projects or total failure. According to the ministry official, project documents were available, but there was no evidence of a system for tracking implementation of plans contained in the documents or even a repository of data relating to the projects in progress.

For instance, report on March, 2014 by Edwin Musoni an editor of new times projects in Rwanda fail as a result of initial contractor failing to deliver project on time.

For instance, the construction of Kigali Conventional Centre whose construction budget was initially Usd 226 million but eventually consumed Usd 500 million; an amount that the Ministry of infrastructure attributed to inflation and additional works on the road. The project overshot its budget by Usd 274 million due to inflation and additional features that changed the original design work. These additional works were either initially ignored or were not well planned to fit into the overall project plan without pushing the cost higher and increasing the time initially set.

Another project was the construction of Nyabarongo I hydro power project whose contract commencement date was on May 2009 with an expected completion date of February 2013. But the project incurred two deadline extensions; April 2014, and finally October 2014 which counts to about 20 months' extra time to the initial set deadline.

Following the above cases the researcher was motivated to investigate extrinsic factors influencing project failure in Rwanda.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to investigate the effect of extrinsic factors on the failure of investment projects in Rwanda.

1.3.2 Specific Objectives

The study was guided by the following specific objectives

1. To determine the extent to which political factors lead to failure of investment projects financed by BRD.
2. To evaluate the extent to which environmental factors lead to failure of investment projects financed by BRD
3. To assess the extent to which regulation and legal factors lead to failure of investment projects financed by BRD
4. To investigate the extent to which economic factors lead to failure of investment projects financed by BRD

2.0 Literature Review

2.1 Empirical review

2.1.1 Extrinsic factors

According to Wideman (1990), Project environment includes the customers and competitors, its geographical, climatic, social, economic and political settings, in fact, virtually everything that can impact its success. These factors can affect the planning, organizing, staffing and directing which constitute the project manager's main responsibilities. This environment represents a complex set of inter-dependent relationships, which constantly react with the project as it is brought into reality. Conversely, most projects are intended to impact the environment in one way or another, and this is particularly true of infrastructure projects. Therefore, for the project to be ultimately successful, these inter-dependencies must be taken into account.

Picciotto & Weaving (1994) also found that in the mid-1990s, about a third of all World Bank completed operational supported initiatives had not achieved their major relevant goals nor were they having a satisfactory developmental impact as compared with 15 per cent of similar initiatives in the 1970s. Eggers (1998) also concluded that on the basis of their viability, a third of all European Union projects and programs had been broadly successful; a third had mixed and often disappointing results; and the remaining third had largely failed. "The Guardian" reported that the British Government had wasted in excess of One Billion British Pounds Sterling in high profile government failed Information Technology related projects since the mid-1990's (Miller, 2001).

It could be argued that Africa's socio-economic and political conditions and organizational environments often affect the implementation of projects. The recognition of economic rationality and efficiency also assumed as a basis for most PM- tools and techniques does not reflect local realities (Jaeger & Kanungo, 1990). The use of such tools and techniques in Africa, and Rwanda in particular, will not enhance project success if they run counter to cultural and work values. The growing weight of empirical evidence from Cross-Cultural Management Research (Lubatkin, *et al.*, 1999) suggests that Western Management concepts may be wholly or partially inapplicable and irrelevant to other cultures.

According to Miller, (2001), economic factors refer to the issues influencing the economic feasibility of the project including the changes in domestic economic conditions of the recipient country or inaccurate project development plan due to unpredictable economic conditions. This may be caused by increased competition, decreased consumption, and regulatory changes requiring changes in selling price of the product or renegotiating concessions awarded to the project and would reduce the profit margin.

According to Bhattacharyay (2008) project funding, foreign currency exchange rate as well as foreign investments and joint venture affect the success of projects in various ways. This may be caused by increased competition, decreased consumption, and regulatory changes requiring changes in selling price of the product or renegotiating concessions awarded to the project and would reduce the profit margin.

The availability of resources is considered to be a factor necessary for the successful completion of projects. The financing of a project involves the arrangement of adequate funds to pay for the development and operation of a clearly defined project. In some cases it is also necessary to raise finance to cover maintenance and operation. The structure and form of finance will be influenced by the nature of the project. For some projects, the majority of funding will come from local or central government sources; in other cases the project will be revenue-generating and this revenue will be used to pay back loans and pay for maintenance and operation.

Financing problem has been known to contribute to delayed project completion (Leurs, 2005). Complaints have been raised that donors are generally very slow at delivering what they promised. Both the preparation and implementation stages were consequently seriously affected. Borrowers feel that donors are quick to make funding pledges, but as soon as one gets to the details of the intervention and the conditions for delivering the funds, serious delays built up. Some projects may also involve a private sector contribution in which the private sector aims to own and control some or all of the assets (Chan, *et al.*, 2009).

There is a lot of inconsistency among donors in the multiple and diverse requirements (Nick, 2002). Using donors' auditing procedures each donor demands separate financial and technical reporting systems which are adapted from their domestic procedures Barccarini (2005). The structure and timing of financial provision may impose certain constraints on the design and scheduling of the project. For some projects, very little detailed design work will have been undertaken prior to the award of grant. This may be simply because all the funding for the project is not yet in place and/or the risk is too great to commit even the design costs of a project that may not receive a grant.

Cost benefit analysis, whether formal or informal, will follow initial specification of a project. The purpose is to test whether the project as specified will be economically viable or whether it will generate good value for money. Leaving such feasibility studies until after a project has started, (which often happens in practice!), may mean that potential problems are not revealed in time to influence project planning.

Although the economic and financial evaluation of the project is probably the most obvious element of the feasibility stage, external factors can play a major role in determining whether a project will proceed (Bhattacharyay, 2008).

Project managers need to be sensitive to the power and influence of key individuals in the institution and how the pattern of influence is affected by the project and changing circumstances. There is the need to market ideas and concepts to indifferent or hostile colleagues, to channel information in order to change perceptions and to undertake a number of lobbying activities to obtain the resources needed for the project. In Rwanda, one of the means of achieving political support is to embark on a good analysis of stakeholders, and devising an effective strategy to win their support. These political skills are going to have to be directed towards building trustworthiness, mobilizing support and blocking opposition on behalf of the entire project (Warne, 1997).

Participative management styles are usually not sufficient in project areas with particularly strong political dimensions such as change management. Project managers in charge of “change projects” may have to put a lot of time and energy into developing influence, building political support and managing a network of interested parties. There may be a conflict over resources, authority and the outcome of change itself. Political skills in addition to those of participative management and problem solving are required for project managers to succeed (Boddy & Buchanan, 1992).

2.3.2 Project failure

Simplistically, the success of a project would be meeting the client’s expectations within the limitations of time, cost and quality. This is considered as a very crude standpoint because it would standardize the success as a ‘point’ on the time, cost and quality/performance scales which is basically unrealistic especially when dealing with accomplishing today’s highly innovative and dynamic projects. With keeping in mind the necessity of lots of compromises and changes in scope during the accomplishment of a project, Kerzner (2003) claims that the success singular ‘point’ in terms of time, cost and quality would convert into a ‘cube’ containing that ‘point’ of success. Assuming that success in a project is a ‘cube’ rather than a ‘point’ which is only the most ideal success status, is staying in the ‘cube’ but missing that ‘point’ considered a failure? The answer most definitely would be no. Oftentimes clients and even internal project sponsors target performance goals which are in essence totally unreasonable, though assume that only reaching 80 to 90 percent of them would be regarded as success.

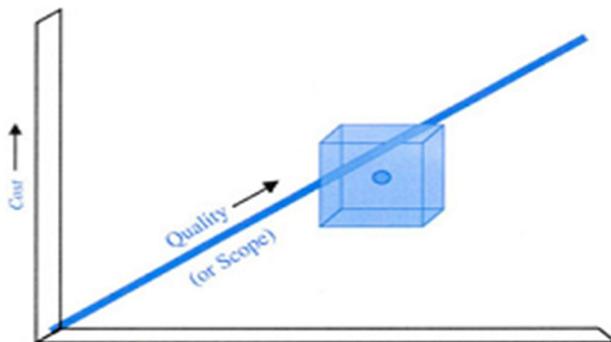


Figure 2.2: Failure ‘Cube’ vs. Failure ‘Point’ (Kerzner, 2003)

In a very subtle approach, Gilbreath (1989) by introducing actual, planned, achievable and perfection target goals suggest two elements of project failure; the concept of ‘planning failure’ which is the difference between planned target and what was actually achievable, and second, ‘actual failure’ (poor performance) that is the difference between what was achievable and what in reality was accomplished.

In continue; by summing up actual and planning failures one can get to a net sum which Gilbreath names ‘perceived failure’. Two scenarios can be envisioned; one is the classic under-planning situation in which planned target is lower than what can be achieved with present resources and circumstances in hand and the actual target even lower than planned one. The second scenario – over-planning - is slightly different in that we set the planned target higher than what is achievable which still assures the ‘planning failure’ even though no ‘actual failure’ happens. As it is illustrated in Figure 2.1, in both cases the ‘perceived failure’ could vary considerably. Nowadays, ‘planning failure’ is the critical issue for most of the project managers and reducing it goes hand in hand with good project management methodological practices. Basically, if this failure can be minimized, then the ‘actual failure’ which would become quite close to ‘perceived failure’ could decrease dramatically.

2.4 Conceptual Framework

A conceptual framework is very important in any research study being undertaken. It shows the relationship between the dependent variables and the independent variable (Kotter, 1995). This study addressed four extrinsic factors that influence investment projects failure. These included political, environmental, regulatory and economic factors. In addition, the relationship between these factors and failure of funded investment projects in Rwanda will be analysed. A conceptual framework has been drawn to show the link between the dependent and the independent variables.

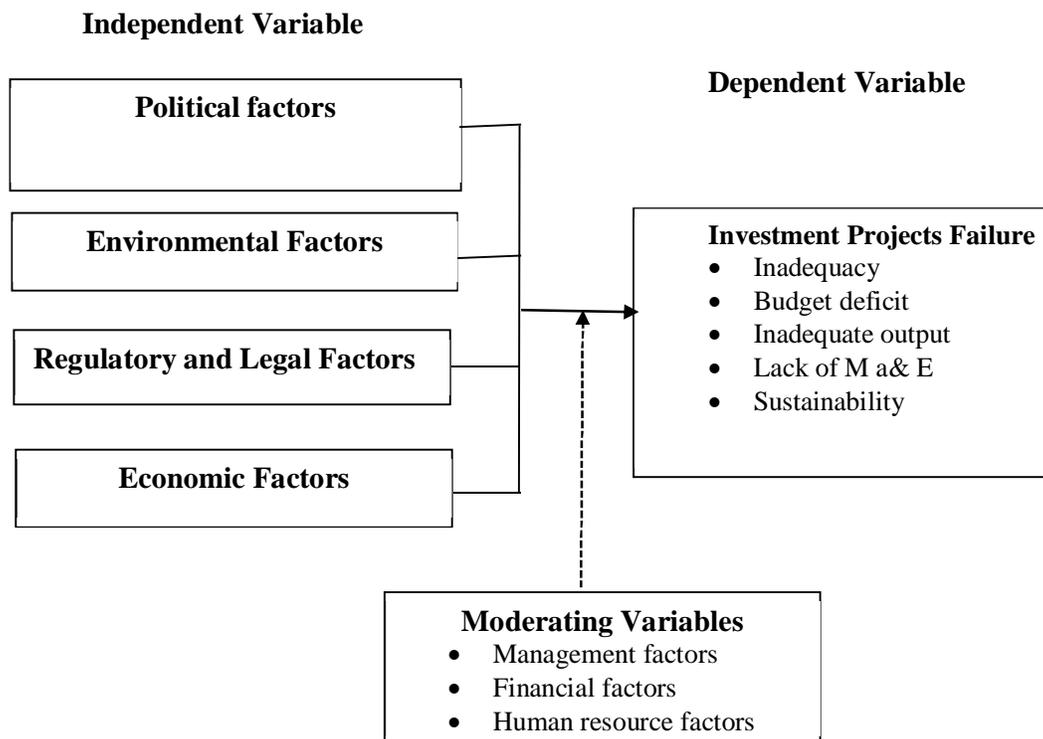


Figure 3.2: Conceptual Framework

2.4.1 Relationship between Dependent and Independent Variable

Political Factors as conceptualized in this study means the interference that may come from political offices and politicians that may have a negative influence on a project. These could be issues at the national level and regional level including inconsistency in policies, laws and regulations, and political instability. From development project's perspective, these factors contribute to an environment of uncertainty on return of capital investment.

Environmental factors refer to issues in conflict with established environmental regulations of the recipient country. This comprises pollution related issues such as noise, air pollution, water pollution, and visual disturbances and those related to natural resources such as unsustainable use of natural resources including minerals, water, land, and flora and fauna.

Regulatory and Legal Factors are conceptualized as the laws and policies from the government of financing institutions that might negatively affect investment projects. These could also be changes in existing legal or regulatory environment. In addition, these could include unexpected changes in government policies pertinent to laws and regulations and currency conversion; absence of appropriate regulatory systems; rates and methods of taxation including customs, royalties, convertibility of currency; role of local courts in arbitration; and the methods by which electricity tariffs are set and approved. Economic Factors have to do with issues like inflation, money supply, growth in GDP, currency rates, interest rates among others, whose change might negatively affect investment projects. In addition, these include issues influencing the economic feasibility of the project including the changes in domestic economic conditions of the recipient country or inaccurate project development plan due to unpredictable economic conditions. This may be caused by increased competition, decreased consumption, and regulatory changes requiring changes in selling price of the product or renegotiating concessions awarded to the project and would reduce the profit margin

2.4.2 success factors

The use and management of projects has risen to a new prominence, with projects seen as critical to economic in both the private and public sectors. The reason behind the expansion of project-based work typically arise due to the new challenging environment and opportunities brought about by technological developments, the shifting boundaries of knowledge, dynamic market conditions, changes in environmental regulations, the drive towards shorter product life cycles, increased customer involvement and the increased scope and complexity of interorganizational relationships (Bredillet, 2005).

Business today is operating under high level of uncertainty, projects implementation are open to all sorts of external influence, unexpected events, ever growing requirements, changing constraints and fluctuating resource flows. This clearly shows that if projects are applied and steps are not taken in order to manage them effectively and efficiently, the chance of failure is high. In 1994 the Standish Group, a renowned market research and advisory firm in the United States reported that only 9 percent of projects in large companies were successful, the major reasons listed for failure were not completed by initial deadline, cost overruns and content deficiencies or not meeting the original scope. Five years later, under the same nature of survey, the Standish Group reported that over half of mainly IT projects cost 189% of their original estimates.

Project management consultants such as PMI have identified common problems in project management such as lack of project management skills, scope creep, poorly defined objectives, high staff turnover, insufficient resources, poor follow up, insufficient authority given to the project managers and no common project management methods adopted in the project team.

3.0 Research design

This study adopted descriptive research design. A descriptive study is a study concerned with describing the characteristics of a particular individual or of a group (Kothari, 2004). The study sought to investigate the effect of extrinsic factors on the failure of investment projects in Rwanda. It adopted a case study survey. A case study involves careful and complete observation and analysis of a unit in its relationship to any other unit in the group (Kothari, 2004). A survey design is associated with a guided and quick collection, analysis and interpretation of observation (Mugenda & Mugenda, 1999).

According to Merriam (1998) descriptive research design is used to obtain information concerning the current status of the phenomena to describe what exists with respect to variables. Further, Kothari, (2006) also highlights that case study is a way of organizing data and looking at the object to be studied as a whole. Descriptive case study aims at collecting information about people's attitudes, opinion, and behaviour (Orodho 2002). The study hence considered the case study suitable since data was gathered from Development Bank of Rwanda.

3.1 Target population.

Target population is the specific population about which information is desired. Mugenda and Mugenda, (2003), explain that the target population should have some observable characteristics, to which the researcher generalized the results of the study. The target population of this study considered 15 credit administration, 8 Risk Management and Compliance managers, 10 investment office managers relevant for investment projects at Development Bank of Rwanda as well as 25 projects' beneficiaries. The total population of the study was 58.

3.2 Sample size sample frame

Chandran, (2003) defines a sample as a small proportion of an entire population; a selection from the population. The study used purposive sampling technique to select the departments which were relevant to the study. The research adopted stratified sampling technique to select the four departments and purposive sampling technique to select project beneficiaries that constituted the sample size. Four departments were selected and their entire population sampled. Since the sample size is not very large 58, census approach was adopted. When the entire population is used in a study, it gives a full representation and to make more accurate conclusions as suggested by De Vos, *et al.*, (2005). Census approach is used when the total population is manageable.

Table 3.1. Sample frame

	Population
Credit Administrators managers	15
Risk Management and Compliance managers	8
Investment Office managers	10
Project beneficiaries	25
Total	58

4.0 RESEARCH FINDINGS AND DISCUSSIONS

4.3 Relevant Findings

The relevant findings are presented as per specific objectives in the study

4.3.1 Extent to Which Political Factors Lead to Failure of Investment Projects Financed By BRD

This section sought to establish from the respondents' extent to which political factors led to failure of investment projects financed by BRD. In this section a scale of 1-5 was used. The scores "to no extent" and "small extent" were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale ($1 \leq \text{small extent} \leq 2.5$). The scores of 'moderate extent' represented in decision by the respondents. This was equivalent to 2.6 to 3.5 on the Likert scale ($2.6 \leq \text{moderate extent} \leq 3.5$). The score of "large extent" and "very large extent" represented 'large extent' with the statements provided. This was equivalent to 3.6 to 5.0 on the Likert Scale ($3.6 \leq \text{large extent} \leq 5.0$). Data was presented in means and standard deviation.

Table 4.2: Extent to Which Political Factors Lead to Failure of Investment Projects Financed by BRD according to BRD Officers

	N	Mean	Std. Deviation
Institutional instability	32	2.0000	1.21814
War (1994 Genocide)	32	3.5313	1.50235
Corruption	32	1.7813	1.00753
Political influence	32	2.2813	1.17045
Lack of internal political will	32	1.8125	.85901

Source: Primary data 2016

From Table 4.3, respondents rated institutional instability ($m=2.0$), corruption (1.7813), political influence (2.2813) and lack of internal political will (1.8125) as leading to the failure of investment projects financed by BRD, to a small extent. However, respondents said that war (Genocide 1994) moderately led to failure of these projects. Overall, as shown by most (37.5%) of respondents in figure 4.5, political factors led to failure of investment projects financed by BRD to a small extent. However, 18.8% of respondents said that political factors led to projects failure to a large extent while 12.5% said to a very large extent. This showed that different political factors impacted differently on investment projects failure although generally political factors impacted to failure of projects to a small extent.

Table 3.4: Extent to Which Political Factors Lead to Failure of Investment Projects Financed by BRD according to Project Beneficiaries

	N	Mean	Std. Deviation
Institutional instability	21	2.8652	1.36514
War (1994 Genocide)	21	3.7865	1.40235
Corruption	21	2.6325	1.08697
Political influence	21	2.8652	1.15674
Lack of internal political will	21	2.2314	.75624

Source: Primary data 2016

From Table 4.4, the findings revealed that according to project beneficiaries, war (1994 Genocide) ($m=3.7865$) affected project failure to a great extent with Institutional instability ($m=2.8652$), corruption (2.6325) and political influence (2.8652) influencing project failure to moderate extent while Lack of

internal political will (2.2314) affected project failure to a small extent. This shows that project beneficiaries differ with the bank on the magnitude of political factors influencing investment project failure. On overall, 43% of project beneficiaries' respondents believed that political factors influenced investment projects failure to a moderate extent.

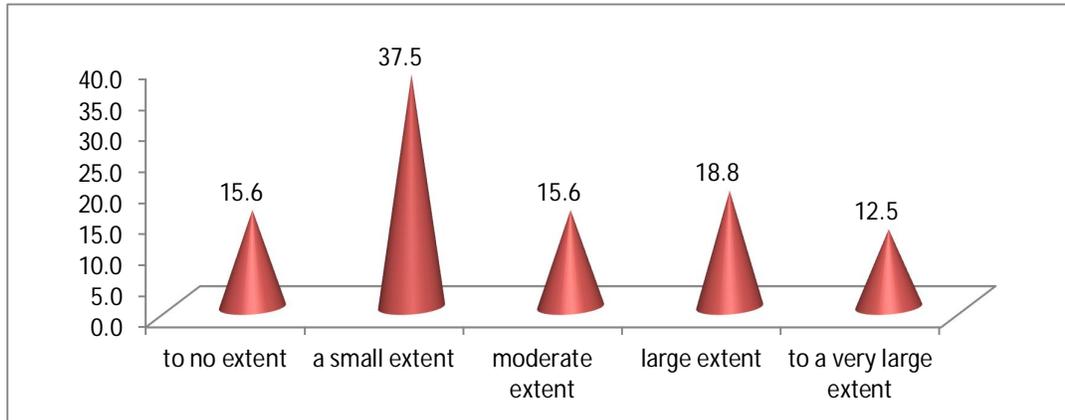


Figure 4.54: Extent Political Factors Have Led to Failure of Investment Projects Financed by The Bank

4.3.2 Extent to Which Environmental Factors Lead to Failure of Investment Projects Financed by BRD

This section sought to establish from the respondents' extent to which environmental factors led to failure of investment projects financed by BRD. In this section a scale of 1-5 was used. The scores "to no extent" and "small extent" were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale ($1 \leq \text{small extent} \leq 2.5$). The scores of 'moderate extent' represented in decision by the respondents. This was equivalent to 2.6 to 3.5 on the Likert scale ($2.6 \leq \text{moderate extent} \leq 3.5$). The score of "large extent" and "very large extent" represented 'large extent' with the statements provided. This was equivalent to 3.6 to 5.0 on the Likert Scale ($3.6 \leq \text{large extent} \leq 5.0$). Data was presented in means and standard deviation.

Table 4.4: Extent to Which Environmental Factors Lead to Failure of Investment Projects Financed by BRD according to BRD Officers

	N	Mean	Std. Dev.
Vulnerability to and ravaging environmental degradation and devastation due to wrong location.	32	2.1250	.94186
Improper management of hazardous material and wastes	32	2.1875	.93109
Unsustainable use of natural resources	32	2.2500	.87988
Pollution—air, water, noise	32	1.9375	.75935

Source: Primary Data 2016

From Table 4.5, respondents rated all environmental factors as having led to failure of investment projects, to a small extent. Specifically, they rated vulnerability to and ravaging environmental degradation and devastation due to wrong location at 2.125, Improper management of hazardous material and wastes at 2.1875, unsustainable use of natural resources at 2.2500 and pollution—air, water, noise at 1.9375. In general, as seen in figure 4.6 majority (46.9%+18.8%) rated the influence of environmental factors on failure of investment projects to a small extent. This shows that investment projects financed by BRD rarely fail as a result of environmental factor.

Table 4.5:Extent to Which Environmental Factors Lead to Failure of Investment Projects Financed by BRD according to Project Beneficiaries

	N	Mean	Std. Dev.
Vulnerability to and ravaging environmental degradation and devastation due to wrong location.	21	2.5587	1.00255
Improper management of hazardous material and wastes	21	2.6324	1.00235
unsustainable use of natural resources	21	2.8234	1.00354
pollution—air, water, noise	21	2.2357	1.00023

Source: Research Data

From table 4.5, project beneficiaries revealed that Improper management of hazardous material and wastes (2.6324) and unsustainable use of natural resources (2.8234) affected the failure of investment projects to a moderate extent while they considered vulnerability to and ravaging environmental degradation and devastation due to wrong location (2.5587) and pollution—air, water, noise (2.2357) as contributing to project failure to a small extent. Again, these findings show that project beneficiaries considered environmental factors to influence project failure more compared to the views of the BRD officers. In overall, most (38%) of the project beneficiaries’ respondents considered environmental factors to influence investment projects to a moderate extent with 23% considering the influence to be to a small extent.

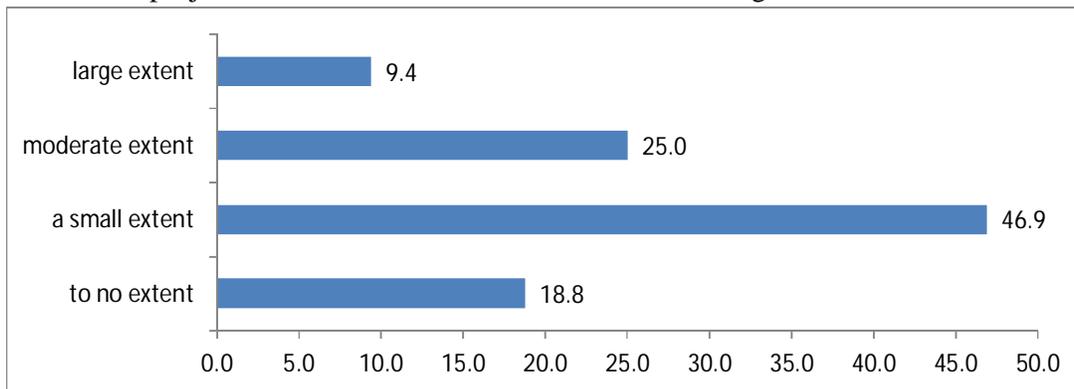


Figure 4.65:Extent Environmental Factors Have Led to Failure of Investment Projects Financed by the Bank

4.3.3 Extent to Which Regulation and Legal Factors Lead to Failure of Investment Projects Financed By BRD

This section sought to establish from the respondents’ extent to which regulation and legal factors lead to failure of investment projects financed by BRD. In this section a scale of 1-5 was used. The scores “to no extent” and “small extent” were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale ($1 \leq \text{small extent} \leq 2.5$). The scores of ‘moderate extent’ represented in decision by the respondents. This was equivalent to 2.6 to 3.5 on the Likert scale ($2.6 \leq \text{moderate extent} \leq 3.5$). The score of “large extent” and “very large extent” represented ‘large extent’ with the statements provided. This was equivalent to 3.6 to 5.0 on the Likert Scale ($3.6 \leq \text{large extent} \leq 5.0$). Data was presented in means and standard deviation.

Table 4.6:Extent to Which Regulation and Legal Factors Lead to Failure of Investment Projects Financed by BRD according to BRD Officers

	N	Mean	Std. Deviation
Changes in investment laws	32	2.3438	1.09572
Currency conversion	32	2.6562	.90195
Poor regulatory systems	32	2.0938	1.11758
Role of judiciary in dispute settlement	32	2.4063	1.07341

Source: Primary Data 2016

From Table 4.7, respondents rated the influence of changes in investment laws (m=2.3438), poor regulatory systems (2.0938) and role of judiciary in dispute settlement (2.4063) as leading to failure of investment projects financed by BRD, to a small extent. However, respondents rated the contribution of currency conversion to a moderate extent. In general, and as shown in figure 4.7, half of the respondents (34.4%+15.6%) rated the extent to which legal and regulatory factors led to failure of investment projects financed by the bank, to a small extent. However, 31.3% of the respondents considered legal and regulatory factors to have a moderate extent on failure of investment projects. From this finding, it is clear that legal and regulatory factors lead to failure of investment projects but to a small extent.

Table 4.7:Extent to Which Regulation and Legal Factors Lead to Failure of Investment Projects Financed by BRD according to Project Beneficiaries

	N	Mean	Std. Deviation
Changes in investment laws	21	2.8635	1.26531
Currency conversion	21	3.1187	1.12451
Poor regulatory systems	21	2.5136	1.36524
role of judiciary in dispute settlement	21	2.8925	1.21647

Source: Research Data

From Table 4.7, project beneficiaries revealed that Changes in investment laws (2.8635), currency conversion (3.1187) and the role of judiciary in dispute settlement (2.8925) influenced investment projects failure to a moderate extent while Poor regulatory systems (2.5136) was rated to influence project failure to a small extent. From these findings, currency conversion seems to be a major regulatory factor that influences project failure. Overall, most (38%) of project beneficiaries believed that legal and regulatory factors affected investment projects failure to a moderate extent.

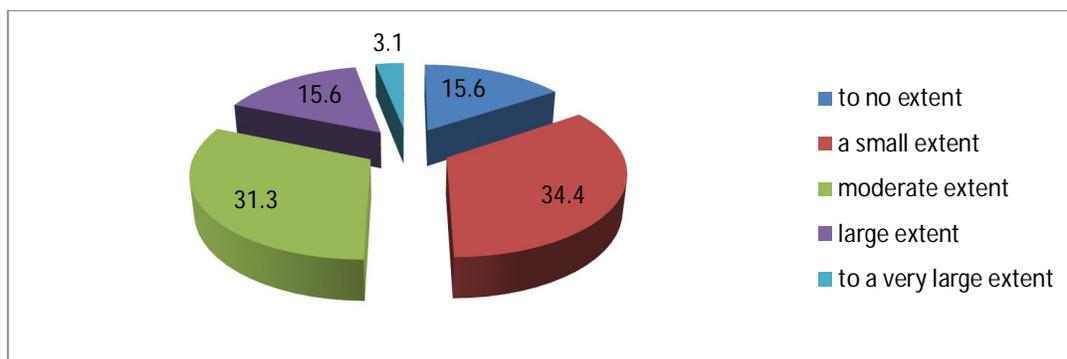


Figure 4.76:Extent Legal and Regulatory Factors Have Led to Failure of Investment Projects Financed by the Bank

4.3.4 Extent to Which Economic Factors Lead to Failure of Investment Projects Financed by BRD

This section sought to establish from the respondents the extent to which economic factors lead to failure of investment projects financed by BRD. In this section a scale of 1-5 was used. The scores “to no extent” and “small extent” were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale ($1 \leq \text{small extent} \leq 2.5$). The scores of ‘moderate extent’ represented in decision by the respondents. This was equivalent to 2.6 to 3.5 on the Likert scale ($2.6 \leq \text{moderate extent} \leq 3.5$). The score of “large extent” and “very large extent” represented ‘large extent’ with the statements provided. This was equivalent to 3.6 to 5.0 on the Likert Scale ($3.6 \leq \text{large extent} \leq 5.0$). Data was presented in means and standard deviation.

Table 4.8: Extent to Which Economic Factors Lead To Failure of Investment Projects Financed by BRD according to BRD Officers

	N	Mean	Std. Deviation
Inflation	32	2.3125	.93109
Taxation	32	2.7813	1.00753
Project costs increase	32	3.4688	.94985
Deflationary risk	32	2.2500	.84242
Currency risk	32	2.6562	.93703
Interest rate risk	32	2.6875	.85901

From Table 4.9, respondents rated inflation (2.3125) and deflationary risk (2.2500) factors, as having contributed to failure of investment projects financed by BRD to a small extent. However, respondents rated taxation (2.7813), project costs increase (3.4688), currency risk (2.6562) and interest rate risks (2.6875) as having contributed to investment projects failure, to a moderate extent. In general, as shown in figure 4.8, half of respondents rated economic factors contribution to failure of investment projects financed by BRD, to having been of moderate extent. However, 28.1% said that economic factors contributed to a large extent. From this finding, economic factors seem to contribute substantially to the failure of investment projects. Specifically, Project costs increase seems to be a leading cause of failure of these projects.

Table 4.9: Extent to Which Economic Factors Lead to Failure of Investment Projects Financed by BRD according to Project Beneficiaries

	N	Mean	Std. Deviation
Inflation	21	2.5368	1.21254
Taxation	21	3.1325	1.12548
Project costs increase	21	3.7625	1.23652
Deflationary risk	21	2.6321	1.16528
Currency risk	21	2.9398	1.13647
Interest rate risk	21	3.0896	1.13586

From Table 4.10, project beneficiaries revealed that Project costs increase (3.7625) influenced investment projects failure to a great extent. In addition, taxation (3.1325), Deflationary risk (2.6321), Currency risk (2.9398) and Interest rate risk (3.0896) influenced investment projects failure to a moderate extent. Respondents said they believed inflation (2.5368) influenced project failure to a small extent. These findings show that project costs increases are a major factor that has contributed to failure of investment projects financed by BRD. Overall, majority (62%) of project beneficiaries believed that economic factors

contributed to a moderate extent to investment projects failure. 26% of the respondents believed economic factors influenced project failure to a great extent.

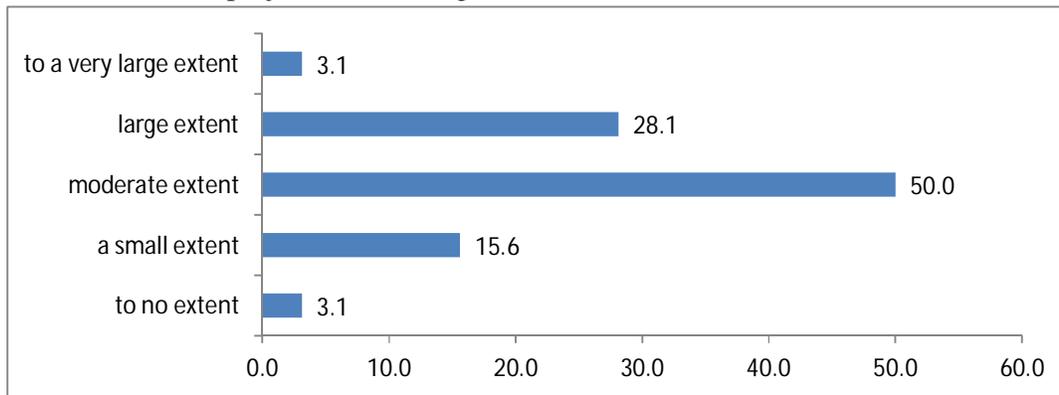


Figure 4.87:Extent Economic Factors Have Led to Failure of Investment Projects Financed by the Bank

4.3.5 Extent to which Extrinsic Factors Led to Failure of Investment Projects Financed By BRD

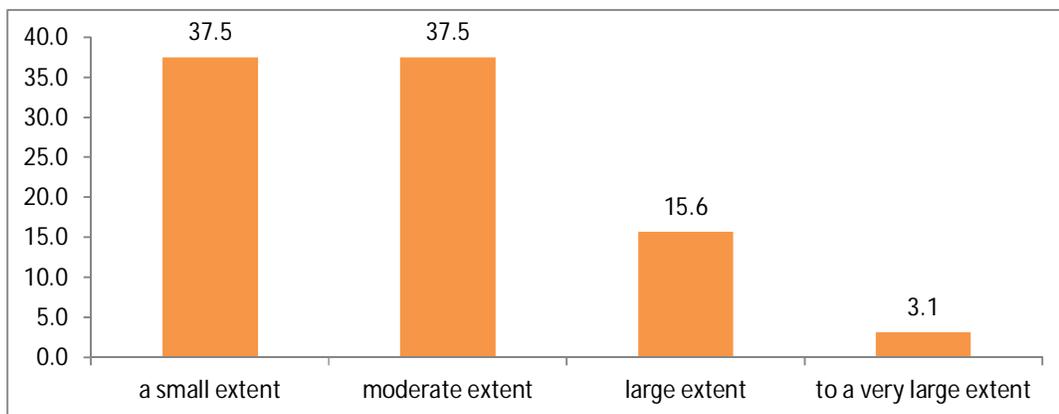


Figure 4.98:Extent to which Extrinsic Factors Have Led to Failure of Investment Projects Financed by the Bank according to BRD Officers

From Figure 4.9, 37.5% of respondents rated the extent to which they thought the extrinsic factors led to failure of investment projects to a small extent while 37.5% rated the contribution of the factors to a moderate extent. In addition, 15.6% believed extrinsic factors contributed to a large extent to failure of investment projects financed by BRD. This finding has the implication that extrinsic factors contributed to some extent to the failure of investment projects.

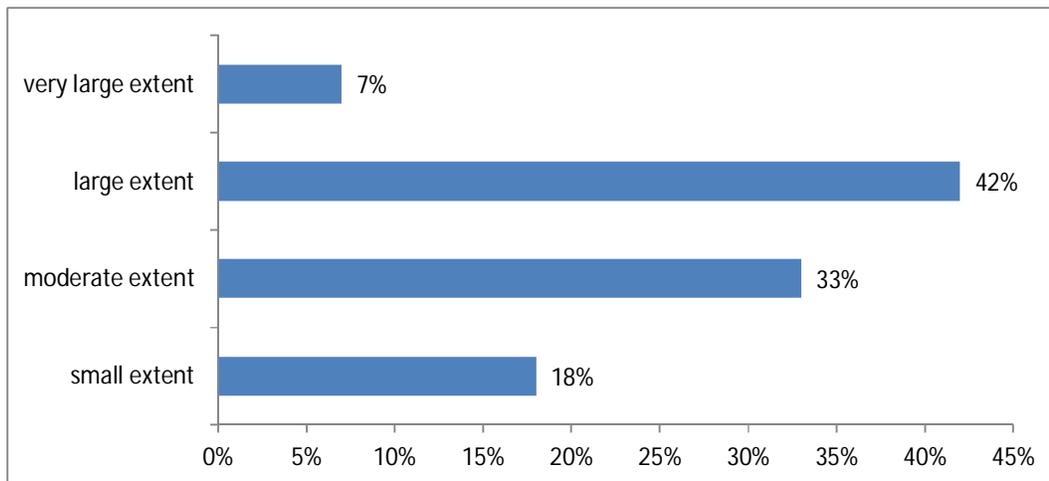


Figure 4.109: Extent to which Extrinsic Factors Have Led to Failure of Investment Projects Financed by the Bank according to Project Beneficiaries

From figure 4.10, most (42%) project beneficiaries believed that extrinsic factors affected investment projects failure to a large extent with 33% saying it was to a moderate extent

4.4 Secondary Data Results

From the report on non-performing loans at BRD prepared by the Credit Administration Department, the reasons of default causing the loan to fall in NPL category were diversified. They could include poor analysis of the project or the promoter, poor implementation of the project and poor monitoring by the Bank, as well as factors beyond the control of the promoter or the Bank. These would include extrinsic factors beyond the bank itself.

According to the report, as on 30.06.2012, the Portfolio of Non-Performing Loans within the Bank comprised of 191 projects for 148 promoters with a total risk amounting to Rwf 9,017,346,569, out of a total portfolio of Rwf 96,450,926,627. The rate of Non-Performing loans at end June was 9.3 % against the rate of 5% required by the central Bank at that period. The NPL rate is the ratio of outstanding amount of bad loans (With arrears of 90 days and above) over the total portfolio amount. As per the report, the high rate of NPL at the end of 2010 could be attributed to non-payment as a result of economic crises of 2008/2009.

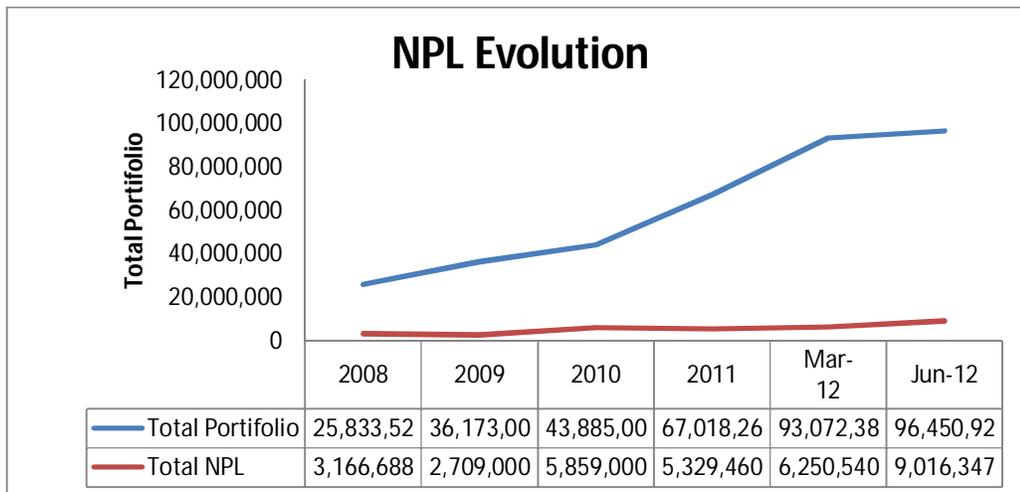


Figure 4.1110: Total Loan Portfolio against Total NPL
Source: BRD Financial Reports (2008 – 2015)

In addition, the report showed that as at 30th June 2012, the written off loans were 83 for 72 clients totalling Rfw 2,122,307,000.

4.5 Correlation analysis

To quantify the relationship and strength of the relationship between the variables, the study used Karl Pearson’s coefficient of correlation. The Pearson product-moment correlation coefficient (or Pearson correlation coefficient for short) is a measure of the strength of a linear association between two variables and is denoted by r . The Pearson correlation coefficient, r , can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association, that is, as the value of one variable increases so does the value of the other variable. A value less than 0 indicates a negative association, that is, as the value of one variable increases the value of the other variable decreases

Table 4.10: Correlation and the coefficient of determination

	Investment project failure	Political factors	Environmental factors	Legal factors	Economic factors
Investment project failure	1.000				
(r) (p) Sig. (2 tailed)					
Political factors	0.894	1.000			
(r)					
(p) (2 tailed)	0.018				
Environmental factors	0.493	0.316	1.000		
(r)					
(p) Sig. (2 tailed)	0.031	0.047			
Legal factors	0.661	0.163	0.216	1.000	
(r)					
(p) Sig. (2 tailed)	0.024	0.019	0.047		
Economic factors	0.402	0.161	0.233	0.462	1.000
(r)					
(p) Sig. (2 tailed)	0.046	0.029	0.0464	0.014	

According to the table 4.10, there is a positive relationship between Investment project failure and Political factors, Environmental factors, Legal factors and Economic factors (0.894, 0.661, 0.493, and 0.402) respectively. The positive relationship indicates that there is a correlation between extrinsic factors influencing investment project failure. This notwithstanding, all the factors had a significant p-value ($p < 0.05$) at 95% confidence level. The significance values for relationship between extrinsic factors influencing investment project failure were 0.018, 0.031, 0.024 and 0.046 respectively. This implies that political factors were the most significant factor.

5.0. Conclusions

The project management process is complex, usually required extensive and collective attention to a broad aspect of human, budgetary and technical variables. In addition, projects often possess a specialized set of critical success factors in which if addressed and attention given will improve the likelihood of successful implementation. On the other hand if these factors were not taken seriously might lead to the failure of the project management. Project management requires an efficient process where each aspect of the project is carefully studied and the external factors affecting it are taken into consideration.

The objective of this work from the beginning was to identify the extrinsic factors that lead to failure of investment projects in Rwanda. At an abstract level, it is difficult to say how much these factors contributed to investment project failure. From the study, many factors were identified as extrinsic causes of investment project failure. In conclusion, the study found out that there were a number of extrinsic factors that caused investment projects failure among projects financed by BRD. In general, extrinsic factors contributed to some extent to the failure of investment projects. Different political factors impacted differently on investment projects failure although generally political factors impacted to failure of projects to a small extent. In addition, investment projects financed by BRD rarely fail as a result of environmental factor. Further, economic factors seem to contribute substantially to the failure of investment projects. Specifically, Project costs increase seems to be a leading cause of failure of these projects.

5.4 Recommendations

The following recommendations were made to address some of the key challenges/issues findings:

1. To mitigate political factors risk, project managers should ensure commitment to those in power, re-commitment whenever change arises and visibility of these commitments. Project managers should develop, maintain and leverage strategic stakeholder relationships - both formal and informal. Such stakeholders should have authority, status and influence in allocating resources and making decisions which affect the project.
2. On economic factors, monitoring and evaluation can lead to timely implementation of projects, the right project organizational structure as well as good financial accountability and management, provision of sufficient resources as and when required and good project resource planning and controlling.
3. The study recommends that since economic factors contribute immensely to performance of investment projects, infrastructural requirements as well as investment requirements and options for financing investing projects including public private partnerships, project financing need an appropriate throughput tariff structure that will spur investment projects development.
4. Unfavourable regulatory environment does not only scare away potential investors but also squeeze revenues for those in operation. As such, there is need for government and development partners to create a conducive legal and regulatory business environment that is at par with international best practices so that the country can attract the requisite private investment projects.

5.5 Recommendation for Further Studies

This study addressed extrinsic factors that led to project failure in investment projects financed by BRD. There would be need to study the contribution of the same factors to the success of investment projects financed by BRD. In addition, other studies can address other factors that lead to failure of these projects.

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