COMMERCIAL BANK FINANCING AND THE DEVELOPMENT OF THE PRIVATE SECTOR IN RWANDA.

A CASE OF BANK POPULAIRE Du RWANDA (BPR)

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DECLARATION

I, **IRYAMUKURU MICHEL**, declare that the content of this work is my own work and it has never been presented or submitted anywhere else for any other or similar award at any other University or Institution of high learning.

Signature:........................ Date:..12/.1.../2012

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Approval

This dissertation has been submitted with the approval of the university s' appointed supervisor.

Mr. Byamukama Gershom

Date of ...14../...11.../..2012.

Signature ....

2012

DEDICATION

This work is dedicated to my beloved wife Umutoni Josiane, my beloved mother Mrs Mukankusi Candide, my sister Rugamba Dorcyna, Uwanyirigira Theddy, Umukabyagaju Liliane, the family of Rwangabwoba J.P, Umutagaramba S.

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ABBRIVIATIONS

ACH - Automatic Clearing House

BCR - Banque Commercial du Rwanda

BNR- Banque Nationale du Rwanda

BPR - Banques Populaires du Rwanda

CRR - Cash Reserve Ratio

D.I.S - Differential Interest Scheme

FSAs - Financial Service Associations

GDP – Gross Domestic Product

ICT – Information and Communication Technology

L/C - Letter of Credit

MFIs – Micro Finance Institutions

NGOs – Non Governmental Organizations

NII - Net Interest Income

SACCOs - Savings And Credit Cooperative Organizations

SLR - Statutory Liquidity Ratio

SME – Small and Medium Enterprises

U.S.A – United States of America

UBPR - Union des Banques Populaires du Rwanda

USD – United States Dollar

ABSTRACT

For Rwanda to develop as forecasted, the private sector had to play the driving role through involvement of commercial banks in assisting entrepreneurs and business operators to easily access finance that could lead to the economic growth. However, the private sector is still facing the problem of access to finance. This study was carried out on assessing the contribution of commercial banks financing and development of private sector in Rwanda. The objectives of the study was to assess effectiveness of commercial bank financing to the development of private sector in Rwanda, to evaluate the role of commercial banks in spearheading the private sector growth in Rwanda and examine whether the amount of commercial banks financing influences the growth and development of the private sector in Rwanda. The research reviewed the existing literature related to the study. In the framework to achieve the study objectives, the study was conducted by using cross sectional survey research design. The researcher's study population was 260 People's Bank staffs, 420 private sector operators and 140 staffs of the national bank of Rwanda. Random sampling technique were used to obtain a sample of 150 for People's Bank staffs ,200 for private sector operators and 100 for staffs of the national bank of Rwanda by using Krejcie and Morgan table (1970).

The researcher find that the commercial banks have prayed a big role by giving loans to businessmen, facilitating the private sector to manage their deposit and providing trainings for private sector. It was found that commercial banks financing to the private sector fuels business growth and development in the private sector whereby 98% of the respondents applied for funds to finance their project. It was found that National Bank of Rwanda sets different regulations for commercial bank in order to help private sector access to finance easily, to provide monthly report of different activities in order to assess their impact on the development of the private sector.

Finally, the commercial banks have played a big role to the development of private sector in Rwanda; it has been recommended that BPR should keep facilitating private by giving different facilitation to businessmen aimed at increasing the growth and development of private sector. It has been recommended that National Bank of Rwanda has to keep monitoring commercial banks and require them to present the monthly reports aimed at assessing their impact on the development of the private sector in Rwanda. The findings of this research, will help the private sector to establish a crucial linkage with the commercial banks in order to boost their development.

CHAPTER ONE

1.0 INTRODUCTION

The level of commercial bank financing and its impact on the development of the private sector in Rwanda was uncertain. Commercial bank financing in Rwanda started prior to 1994 but was not attractive and their impact was so minimal. After the socio political turmoil of 1994, the new government realized the need for a vibrant financial sector in order to jump starts the private sector investment led economy.

From as far back as 1994 or so, the private sector was so under developed and had a small contribution to the national economy. Private sector development in Rwanda started to be witnessed after 1994, by the formation of the Rwanda Chamber of Commerce to bring together private sector businesses for economic development. Private sector businesses were dominated by commercial banks, industrialists, traders and agriculturalists among others.

As a government driven institution, the Chamber of Commerce exhibited three important limitations: access to finance, lack of autonomy, weak representation, and lack of relevant services among others. As a result of the above challenges, Industrialists, Banks, Insurers, Transporters, and Women created stand-alone associations to serve their needs. The PSF-Rwanda was therefore founded in December 1999 as the Private Sector's counterpart and umbrella organization to address these issues like access to finance, lack of autonomy, weak representation, and lack of relevant services in the private sector.

The private sector businesses came together to offer their services amongst themselves. For example, there came commercial banks with a sole target of bridging the access to finance gap and making profit. But in their lending money to the private sector, these banks were poorly managed and run. These banks accumulated a lot of non- performing loans. This gave way for foreign banks to come and set up operations here. To this moment, not a lot has been achieved as these banks demand members of the private sector to be their members first and later extend their services to them but the private sector still exhibits fear that these commercial banks may confiscate their properties if they failed to honor their part of their agreements.

But on the other hand, there are some individuals who took up the challenge to honorably work with these commercial banks in order to achieve their desires. So this research intends to find out the contribution of commercial banks in financing and the development of the private sector in Rwanda for the case of people's bank of Rwanda.

1.1 Background of the Study

According to BNR's some banks and non-bank financial institutions, suffered serious capacity constraints and fell short of best banking practices. This resulted in massive losses and consequent erosion of confidence among potential clients. Rwandan post-war banking system was characterized by under capitalization, lack of long-term resources, high level of nonperforming loans, low returns on assets, weak managerial capacities, inefficient management and underdeveloped payment system.

BNR embarked on staggered restructuring programmes that were submitted to banks to bring them in line with prudential regulations. Supervision capacities at BNR were also reinforced to ensure early detection of danger signals. Although there is still a long way to go, the there is evidence that the efforts are bearing fruits. To reinforce competitiveness, restructuring the financial system was inevitable. This, for instance, saw the privatization of Commercial Bank of Rwanda (BCR) to Actis Group and BACAR to Fina Group. The two banks financial resources were strengthened and management entrusted to professionals with undisputed competences and experience in the sector.

After the 1994 turmoil, the new government wanted to jump start the economy led by the private sector investments. But this was not to come any sooner with a dull financial sector of Rwanda. But some Rwandans worked with the existing commercial banks then in order to capitalize their businesses. Here, the level of lending was so low. These banks were poorly managed and run. This led to the collapse of some of these banks as they exhibited conflicts of interest of the banks and their shareholders. This led to the general public losing trust in then and resorted to keeping huge sums of money in their houses. Banks could not have enough deposits to boost their lending endeavors. This hindered large scale commercial banks credit availability.

With the intervention by the National Bank of Rwanda (BNR) to boost liquidity, under performing commercial banks were acquired by foreign banks that wanted to exploit the chance of operation in an economy that was almost virgin. The number of commercial banks operating in Rwanda increased. As they set up shop here, Rwandans started building trust in them and started depositing their money with them. This boosted their reserves and ability to lend to a large number of the private sector members. This started easing credit availability. Somewhere along, the private sector members started defaulting to honor their financial obligations. These banks threatened to close shop. This called for intervention of the central bank of Rwanda. This let to the national bank of Rwanda devising other means of a centralized credit bureau where if one was a black listed individual, (s) he could not be availed with another credit from another bank. Defaulting individuals started realizing how there was no escape but rather to honor their financial obligations. This increased on the number of available credit to the private sector but was still low.

Commercial banks here started issuing out credit but with caution. Commercial banks became so fond of collateral and other forms of guarantees. Since most of the private sector players were start ups, there was a challenge of accessing credit since they did not have the collateral and or guarantees the commercial banks requested. The private sector formed the private sector federation to address this issue as well as a couple of other challenges they were facing. Rwanda's private sector still faces huge challenges in accessing credit, despite growth in the financial sector and interventions by the National Bank of Rwanda (BNR) to boost liquidity.

Areas being financed by these commercial banks include agriculture, trade and industry, liberal professions, tourism, ICT and artisans. Statistics show that as at June 2010, commercial banks registered an increase of 8.7 per cent in their deposits base, from Rwf425.4 billion ($716 million) in December 2009 to Rwf462.7 billion ($779 million). Besides, the central bank cut interest rates twice in 2010 in a bid to encourage banks to lend more and spur economic growth. Economic growth slowed to 5.5 per cent in 2009 from 11.2 per cent in 2008. In November2010, the BNR lowered its key repo rate further by one percentage point to six per cent. The central bank also introduced a low interest policy in order to stimulate lending to the private sector. But Rwandan commercial banks remained reluctant to issue credit mainly due to the high risk perception in the market. They attribute the slow credit growth to a critical shortage of credit worthy projects submitted for funding, in addition to concentration on recovery of bad loans.

The average ratio of non-performing loans to assets in Rwanda's banking industry was about 13 per cent, well above the central bank mark of seven per cent. Banks have now shifted attention to money market placements including government bonds that are almost risk free. For example, a two-year, Rwf2.5 billion ($4.2 million) Treasury bond in August attracted Rwf7.6 billion ($13 million) in bids. "It has proved to be a challenge to expand our loan book; we have sufficient liquidity, but we have not identified a substantial number of creditworthy applications," "It was not that we are not giving out loans but want to give out more loans that are credit worthy."

1.2 Statement of the Problem

For Rwanda to develop as forecasted, the private sector had to play the driving role through the development of commercial banks in assisting entrepreneurs and business operators to easily access finance that could lead to the economic growth. However, the private sector is still facing the problem of access to finance. Research that has been conducted by the Rwandan Ministry of Finance and economic planning in 2009 showed that that the major factor that impeded the establishment and success of businesses was the lack of capital, which was ascribed to lack of own funds and assets especially fixed assets, which could serve as security to obtain bank products. The global competitive report of 2010 to 2011 highlighted the access to finance to be the major limiting factors for doing business in Rwanda. The global competitiveness index also highlighted other factors like limited affordability of financial services which hinder the development of the private sector in the country.

1.3 Purpose of the study

The purpose of this research was to assess the extent to which commercial bank financing has fuelled the development of the private sector in Rwanda.

1.4 Objectives of the study.

The study was guided by the following specific objectives:

To assess the effectiveness of commercial bank financing to the development of the private sector in Rwanda.
To evaluate the role of commercial banks in spearheading the private sector growth in Rwanda.
To examine whether the amount of commercial bank financing influences the growth and development of the private sector in Rwanda.

1.5 Research Questions

What is the effectiveness of commercial bank financing to the development of the private sector in Rwanda
What are the ways commercial banks impact the private sector in Rwanda?
Is the amount of commercial bank financing influences the growth and development of the private sector in Rwanda?

1.6 Scope of the Study

The scope of this study was the period from December 2009 to December 2011 as this was the period when the people's bank of Rwanda actively financed the private businesses.

This study was carried out in Kigali City where the Head Office of People's Bank is located and the most private sector members operate their business and People's Bank head Office was selected to be the representative of People's Banks dispersed countrywide. The choice of the head office was due easy accessibility of the data.

1.7 Significance of the Study

The findings of the results of the research were to benefit main stake holders in the financial services industry as commercial banks, the private sector and the National Bank of Rwanda.

The commercial banks will use findings of this research to evaluate their activities and assess more opportunities available in.
The findings of this research will help the private sector to establish a crucial linkage with the commercial banks in order to boost their development.
The National Bank of Rwanda will use findings of this research to monitor the conduct of commercial banks in providing liquidity to the private sector as a way of fostering the economic growth and development of the country.

1.8 Organization of the Study

The study was organized into five chapters as follows:

The first chapter was the general introductory part which involved the background of the study, justification of the study, the scope of the study, statement of the problem, hypothesis, Objectives of the study, research methodology and organization of the study.

The second chapter presented the literature review related to the study with reference to different sources of data such as text books, annual reports, electronic sources etc.

Chapter Three was the methodology used by the researcher which was both descriptive and analytical. Therefore, the researcher attempted to collect data from members of a population in order to determine the current status of that population with respect to one or more variables to describe existing phenomenon in People's Bank.

Chapter four dealt with the presentation and analysis of the findings of the major research questions on the development of the private sector in Rwanda with a case in point of People's Bank. It further explained the data collected and analyzed it to give appropriate interpretation of what People's Bank financing did to develop the private sector.

Chapter five presented the summary of the findings, conclusion, recommendations and areas for further research.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

Commercial bank financing contributes to the development of the private sector in Rwanda. The following literature gives highlights of how commercial bank financing has influence private sector growth and development in different countries in general and Rwanda in particular. Banking service operations in Rwanda date s far back as early 1960. From the past, most commercial banks centered their operations with the private sector on deposit taking and soft loan issuance in form of trade finance as opposed to long-term debt financing (Allen & Ndikumama (1998). This called for introduction of more financial products including leasing, venture capital and capital market. Banque Populaire du Rwanda S.A (BPR) willing to invest in these new commercial bank products, started operations in Rwanda.

Banque Populaire du Rwanda S.A (BPR), from primarily a cooperative banking system, was formally established as a commercial bank in February 2008 (BNR Annual Report 2011). BPR consists of over 150 branches and outlets in all provinces of the country. Its total asset valuation was in excess of US$185 million (Rwf: 109.2 billion) and is focused in lending to businesses in all sectors of the economy including Agriculture, Industry, Trade and Commerce. Its loan book in December 2010 totaled over US$132 million (Rwf: 78.1 billion). What was not known was the impact this financing had on the development of the private sector in Rwanda.

2.2 Definition of terms

2.2.1 Private sector definition

According to Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003), the private sector, sometimes referred to as the citizen sector (Badrinath and Others (1997)) is the part of the economy that is run by non governmental individuals and companies for profit. The private sector encompasses all for-profit businesses that are not owned or operated by the government (Badrinath and Others (1997). In most free-market economies, the private sector is where most jobs are held since they set up all kinds of businesses for profit (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003). Individuals in the private sector operate in a variety of industries as agriculture, trade and commerce, manufacturing, artisans, tourism, finance, education, among several others (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003). A variety of legal structures exist for private sector business organizations, depending on the jurisdiction in which they have their legal domicile (Beck, Thorsten, Asli Demirgüç ,-Kunt, and Vojislav Maksimovic, 2006).

The main types of legal businesses in the private sector are Sole proprietor or sole trader, Partnership, either limited or unlimited liability, Private Limited Company or LTD-limited liability, with private shares, Public Limited Company (shares are open to the public) e.g. Franchise (business owner pays a corporation to use their name, receives spec for the business) and Workers cooperative (all workers have equal pay, and make joint business decisions) (Beck, Thorsten, Asli Demirgüç ,-Kunt, and Vojislav Maksimovic, 2006).

In order for theses businesses to flourish, they need enough capital in order to do research about consumer needs, new kinds of technology, create demand for the products through intensive marketing, transportation of the products to the markets, produce in large quantities and even reach many markets (Badrinath et al (1997). In order for these businesses to reach this far, they need capital which in most cases they don't have or what they have is not adequate (Badrinath et al (1997). So, they solicit for additional financing from financial institutions which in this case is commercial banks since most entrepreneurs don't have collateral that most financial institutions ask (Badrinath et al (1997). So these private sector businesses resort to commercial banks since it is easy for them to give this financial support as they ask for reasonable things compared to other banks like having an account with them and banking a specific amount onto your account as a sign that the financial support they gave you is being put to use (Badrinath et al (1997). To understand more about commercial banks, let us see the definitions of a bank.

2.2.2 Definitions of a Commercial Bank

The term 'Commercial bank' has been defined in different ways by different economists. A few definitions are:

A bank, according to the Bank Policy Research Report, 2003, is an institution empowered by law to provide a great variety of financial services. Bank Policy Research Report, 2003 continues to state that they receive deposits, cash checks or drafts, discount commercial paper, make loans, and issue promissory notes payable to the bearer, known as bank notes. It continues further that at their most basic, banks hold money on behalf of customers, which is payable to the customer on demand, either by appearing at the bank for a withdrawal or by writing a check to a third party.

2.2.3 Definitions of a Commercial Bank Financing

Commercial Bank Financing is extending financial assistance to the private sector. Here commercial banks charge some fees like interest rates, insurance fees, caution fees among others. These are some of the ways commercial banks make money in order to remain in business. These commercial banks do due diligence to find out whether their clients are credit worthy and sometimes are encouraged by the national banks to lend to special interest groups in order to direct development with in the special areas of the economy.

2.3 Commercial Bank financing development of the private sector overview

Burhop, C., 2006 states that commercial banks recognize that commercial bank financing is a major source of funding for companies of all sizes and may be used for start up businesses, existing operations, equipment purchases, expansion or acquisitions since entrepreneurs don't like using their own funds. So commercial banks have to have a huge cash reserve. These banks have to maintain certain percentages of deposits with the central bank as CRR (Cash Reserve Ratio) on which they earn low interest (Burhop, C., 2006) and invest in G-Securities, which is called as statutory liquidity ratio (SLR) (Beck, Thorsten, Asli Demirgüç ,-Kunt, and Vojislav Maksimovic. 2006) all which they can access in future when there is o

increased cash demand by the private sector. As these commercial banks finance the private sector businesses, they are earning revenue

The commercial bank's revenue is basically derived from the interest it earns from the loans it gives out as well as from the fixed income investments (Burhop, C., 2006). For commercial banks to finance the private sector business activities, they have a prime lending rate below which they can not lend. Prime lending rate is the interest rate charged by commercial banks to their most credit worthy customers (Burhop, C., 2006). Adequate capital helps financial institutions to survive even during substantial losses (Calvo Cottarelli C.; Giovanni D. & Vladkova-Hollar I. (2003). It gives time to re-establish the business and avoid any break in operations (Calvo Cottarelli C.; Giovanni D. & Vladkova-Hollar I. (2003). This requirement is called Capital Adequacy, and is specified for commercial banks and Non Commercial banking financial operations (Calvo Cottarelli C.; Giovanni D. & Vladkova-Hollar I. (2003).

In the relationship of commercial banks financing and private sector development, two types of capital are mentioned: tier one capital is core capital; this includes equity capital and disclosed reserves. Tier two capital is secondary commercial bank capital that includes item such as undisclosed reserves, general loss reserve and subordinated term debt. According to the present norm, and with the Basel II deadline fast approaching, commercial banks have to maintain Capital Adequacy Ratio of at least 10% (Calvo Cottarelli C.; Giovanni D. & Vladkova-Hollar I. (2003). The net interest income (NII) is the revenue on the assets and the cost of servicing the liabilities. In other words, the NII is the difference between the interest payments to the commercial bank on loans and the interest payments by the commercial bank to the customers on the deposits (Calvo Cottarelli C.; Giovanni D. & Vladkova-Hollar I. (2003).

2.4 Types of loans granted by commercial banks

The world Bankers Association 2003 generally recognizes two types of bank term loans, intermediate term loans and Long-term bank Loans. The intermediate term loan usually has a maturity of one to three years. It is often used to finance working capital needs. Working capital refers to the daily operating funds that private sector business owners need to run their businesses (M. Badun, 2009) (King, R. G. & Levine R. (1993).

Working capital loans, however, can either be long term bank loans or short-term bank loans and often are. Companies often want to match the maturities of their loans to the life of their assets and prefer short-term bank loans (King, R. G. & Levine R. (1993) (M. Badun, 2009).

Intermediate bank term loans can also be used to finance assets such as machinery that have a life of around one to three years, like computer equipment or other small machinery or equipment. Repayment of the intermediate term loan is usually tied to the life of the equipment or the time for which you need the working capital (King, R. G. & Levine R. (1993) (M. Badun, 2009).

Intermediate term loan agreements often have restrictive covenants put in place by the bank. Restrictive covenants restrict management operations during the life of the loan. They ensure that management will repay the loan before paying bonuses, dividends, and other optional payments (King, R. G. & Levine R. (1993).

Commercial banks seldom provide long-term financing to private sector businesses. When they do, it is usually for the purchase of real estate, a large business facility, or major equipment. The commercial bank will only lend 65% - 80% of the value of the asset the business is buying and the asset serves as collateral for the loan (King, R. G. & Levine R. (1993) (M. Badun, 2009).

Other factors that private sector businesses have to deal with in commercial bank term loan agreements are interest rates, creditworthiness, affirmative and negative covenants, collateral, fees, and prepayment rights. Creditworthiness has become particularly important since the Great Recession (King, R. G. & Levine R. (1993) (M. Badun, 2009).

In reality, (King, R. G. & Levine R. (1993), commercial bank term loans are actually short-term, but because they are renewed over and over again, they become intermediate or longer term loans. Commercial bankers prefer self-liquidating loans where the use of the loan money ensures an automatic repayment scheme.

Most term loans are in amounts of $25,000 or more. Many have fixed interest rates and a set maturity date. Payment schedules vary. Term loans may be paid monthly, quarterly, or annually. Some may have a balloon payment at the end of the term of the loan (King, R. G. & Levine R. (1993).

Banks seldom provide long-term financing to small businesses. When they do, it is usually for the purchase of real estate, a large business facility, or major equipment. The bank will only lend 65% - 80% of the value of the asset the business is buying and the asset serves as collateral for the loan (King, R. G. & Levine R. (1993).

Other factors that small businesses have to deal with in bank term loan agreements are interest rates, creditworthiness, affirmative and negative covenants, collateral, fees, and prepayment rights (King, R. G. & Levine R. (1993). Creditworthiness has become particularly important since the Great Recession.

If the private sector borrower comes up with guarantee for the financing, it will be a secured short, intermediate or long term bank loan. If the private sector borrower does not have to come up with guarantee for the financing, it will be an unsecured short, intermediate or long term bank loan (King, R. G. & Levine R. (1993). Secured and unsecured commercial bank term loans are defined as thus

A secured loan, according to Favara, G., 2003, is a loan in which the borrower pledges some asset (e.g. a car or property) as collateral for the loan, which then becomes a secured debt owed to the creditor who gives the loan. The debt is thus secured against the collateral — in the event that the borrower defaults, the creditor takes possession of the asset used as collateral and may sell it to regain some or all of the amount originally lent to the borrower, for example, foreclosure of a home (Favara, G., 2003). From the creditor's perspective this is a category of debt in which a lender has been granted a portion of the bundle of rights to specified property. If the sale of the collateral does not raise enough money to pay off the debt, the creditor can often obtain a deficiency judgment against the borrower for the remaining amount. The opposite of secured debt/loan is unsecured debt, which is not connected to any specific piece of property and instead the creditor may only satisfy the debt against the borrower rather than the borrower's collateral and the borrower (Favara, G., 2003).

Unsecured Loans according to Favara, G., 2003 are monetary loans that are not secured against the borrower's assets (i.e., no collateral is involved). These may be available from financial institutions under many different guises or marketing packages (Favara, G., 2003). Examples of commercial bank loans may include the following:

2.5. Mortgage loan

A mortgage loan according to Detragiache, E., Gupta, P. and Tressel, T., 2005 is a very common type of debt instrument, used to purchase real estate. Under this arrangement, the money is used to purchase the property. Commercial banks, however, are given security - a lien on the title to the house - until the mortgage is paid off in full. If the borrower defaults on the loan, the commercial bank would have the legal right to repossess the house and sell it, to recover sums owing to it (Detragiache, E., Gupta, P. and Tressel, T., 2005).

In the past, commercial banks have not been greatly interested in real estate loans and have placed only a relatively small percentage of assets in mortgages. As their name implies, such financial institutions secured their earning primarily from commercial and consumer loans and left the major task of home financing to others. However, due to changes in commercial banking laws and policies, commercial banks are increasingly active in home financing (Detragiache, E., Gupta, P. and Tressel, T., 2005).

David de Ferranti and Anthony J. Ody, 2007 state that changes in commercial banking laws now allow commercial banks to make home mortgage loans on a more liberal basis than ever before. In acquiring mortgages on real estate, these institutions follow two main practices. First, some of the commercial banks maintain active and well-organized departments whose primary function is to compete actively for real estate loans. In areas lacking specialized real estate financial institutions, these commercial banks become the source for residential and farm mortgage loans. Second, the commercial banks acquire mortgages by simply purchasing them from mortgage commercial bankers or dealers (David de Ferranti and Anthony J. Ody, 2007).

In addition, dealer service companies, which were originally used to obtain car loans for permanent lenders such as commercial banks, wanted to broaden their activity beyond their local area. In recent years, however, such companies have concentrated on acquiring mobile home loans in volume for both commercial banks and savings and loan associations. Service companies obtain these loans from retail dealers, usually on a nonrecourse basis. Almost all commercial bank/service company agreements contain a credit insurance policy that protects the lender if the consumer defaults (David de Ferranti and Anthony J. Ody, 2007).

2.6. Bank overdrafts

An overdraft occurs when money is withdrawn from a commercial bank account and the available balance goes below zero. In this situation the account is said to be "overdrawn". If there is a prior agreement with the account provider for an overdraft, and the amount overdrawn is within the authorized overdraft limit, then interest is normally charged at the agreed rate. If the positive balance exceeds the agreed terms, then additional fees may be charged and higher interest rates may apply (Detragiache, E., Gupta, P. and Tressel, T., 2005).

When commercial banks offer loans to the private sector, they either release it on the business entity's account or release cash but the borrowing entity must have an account with the financing bank on to which their termly repayments are deducted (David de Ferranti and Anthony J. Ody, 2007). The private sector businesses hold one or more of the following accounts

2.7. Commercial Banking and Access to financing by the private sector

According to the BNR Annual report, 2009, access to banking services outside of Kigali and the major towns is still very limited as they are only being served by the network of BPR and a few other micro finance institutions that offer very limited financial services, (Kobusingye R, 2011). There are only 3,700,000 commercial bank borrowers and only 5,000,000,000 bank depositors but they account for roughly 75% of Rwanda's deposits and loans (Kobusingye R, 2011). In terms of nation-wide outreach, commercial banks operate only 38 (7%) of the branches. UBPR, on the other hand, has more than 145 branches, 583,000 borrowers and 1,499,000 depositors (Kobusingye R, 2011). Three banks of Rwanda Commercial Bank, Bank of Kigali and Ecobank still hold a large 66% market share and inadequate competition within the banking system has led to high interest rate spreads (8.6% in 2005), a modest 16% per annum growth in deposits over the past 5 years, and lending primarily to a core group of about 500,000 relatively large customers concentrated in Kigali and a few sectors (Kobusingye R, 2011).

Since BPR were declared a fully-fledged commercial bank (Kobusingye R, 2011), it became the third largest bank financially (about 18% market share of deposits), would operate almost 80% of bank branches, and would serve 80% of the bank depositors and 74% of the borrowers (Kobusingye R, 2011). Since it can offer most of the services that other commercial banks provide to enhance its ability to provide retail and international payments services, it will dramatically increase access to banking services and increase competition for medium and small clients. Moreover, this extremely important institution is better regulated and supervised as it is treated more like a citizen commercial bank (Kobusingye R, 2011).

2.8. Private Sector financing and Economic Growth

Allen & Ndikumama (1998) used commercial bank financing to the private sector, volume of financing provided by commercial banks to the private sector and liquid liabilities of the financial sector towards the private sector to measure private sector growth.

In general, Allen & Ndikumama (1998) say, total commercial bank credit can be sub divided into two: credit to the private sector and credit to the public sector. It has been empirically proven that credit to the public sector is weak in generating growth within the economy because they are prone to waste and politically motivated programmes which may not deliver the best result to the populace. David de Ferranti and Anthony J. Ody, 2007 emphasized the importance of focusing on allocation of commercial bank credit to the private sector as opposed to all bank intermediation. Similarly, Beck et al (2005) also observe private sector credit as a good predictor of economic growth while the recent study by Bencivenga, V. R. & Smith, B. D. (1991) also supported this position. A previous submission was that there is little information available about the activities of the financial industry and how they affect the economy where they operate. In essence, the factors that drive private sector credit growth are largely not researched hence the contribution of the well acclaimed private sector credit to the growth of the economy may not be easily measured Bencivenga, V. R. & Smith, B. D. (1991).

Credit is not the only factor promoting growth within the economy. The study by Frankel and Rouseau, P. L. and Wachtel, P., 2007 established the importance of trade in generating growth within the economy. To them, trade proxied by total exports has a quantitatively large and robust positive effect on income. They observed that a rise of one percentage point in the ratio of trade to GDP increases income per person by at least one-half percent. This they believe happens because trade appears to raise income by spurring the accumulation of physical and human capital; thereby increasing output for given levels of capital. The recent study by Ben F. (2000) posits that trade impacts credit growth directly by providing wealth and liquidity in the trading countries. The significance of foreign inflows in enhancing credit growth has also been widely discussed in literature, but there seems to be no consensus opinion about the effect so far. The study by Rouseau, P. L. and Wachtel, P., 2007 found that foreign inflows are significant for growth of credit in Slovak Republic. Several other previous studies support this assertion (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003). However, Corricelli et al (2003) posited that domestic savings flows is the main factor responsible for the growth of credit in Eastern Europe, and as such there was no evidence that foreign inflows was significant in stimulating credit growth.

The role of banks as agents for private sector growth within the economy has been supported by many studies discussed above though there are some contrary evidences (Allen & Ndikumama (1998); they are few when compared to those in support of the proposition. Secondly, there are many studies that support the existence of a long run relationship between commercial bank finance and private sector growth (Allen & Ndikumama (1998). What seems unsettled is the issue of causality between the two variables. However, the efficiency of the system rather than the volume of financial activities is deemed vital to facilitate development (Allen & Ndikumama (1998). It therefore becomes very important that commercial bank financing is allocated to most productive uses in the private sector.

Banks act as intermediaries between savers and persons who are able and willing to borrow money. This relationship is often described as that between savers and investors, but the borrower is not obliged to invest, in the sense of obtaining new capital goods (Allen & Ndikumama (1998).

As intermediaries, banks "may vigorously seek out and attract reservoirs of idle funds which will be allocated to entrepreneurs for investment in projects with a high rate of social return; or they may listlessly exploit their quasi-monopolistic position and fritter away investment possibilities with unproductive loans" (Allen & Ndikumama (1998).

There are many theoretical models available to us in which different channels through which commercial bank financing influences growth are observed. Manning, M. J., 2003 states that commercial bank financing can contribute to Private sector growth in three ways: by a) creating incentives for accumulation of physical and human capital, by b) allocating capital to the most productive activities, and by c) decreasing the amount of resources used in the process of intermediation (Manning, M. J., 2003).

John Humphrey, 2003 differentiates five basic functions of commercial bank financing, which are facilitation of risk management; allocation of resources; monitoring of managers and control over corporate governance; savings mobilization; and easing the exchange of goods and services.

Commercial bank financing differs in how successful it is in performing its functions. Based on John Humphrey's 2003 review, it could be concluded that for private sector growth it is not important whether commercial bank financing is based on banks or securities markets, but whether it performs its functions successfully. However, more recent research has challenged that view (e.g. Calvo Cottarelli C.; Giovanni D. & Vladkova-Hollar I. (2003).

2.8.1 Commercial bank financing generally causes private sector growth

When it comes to econometric research on private sector growth, the chronology can probably be split into before and after (Badrinath and Others (1997). John Humphrey, 2003 expanded this model with four financial variables: a) ratio of liquid liabilities to GDP; b) ratio of deposit money bank domestic assets to deposit money banks domestic assets plus central bank domestic assets; c) credit issued to private enterprise divided by credit issued to central and local government plus credit issued to public and private enterprises; d) credit issued to private enterprises divided by GDP (John Humphrey, 2003)

Furthermore, the level of commercial bank financial development predicts future private sector growth and future productivity advances. In other words, commercial bank financing does not merely follow economic activity. John Humphrey's 2003 results show that there is a statistically significant and economically large relationship between commercial bank financing (measured as credit allocated by commercial banks to the private sector divided by GDP) and long-run rates of economic growth (Odedokun (1996).

Odedokun (1996) states that financial intermediation promotes economic growth and that the growth-promoting patterns of financial intermediation are practically invariant across various countries and regions.

Fink et al. (2005) show that commercial bank financing triggers short run growth effects rather than spurring long term growth. Their financial indicator includes not only bank credit, but also stock market capitalization and value of outstanding debt securities divided by GDP.

2.8.2 Finance only sometimes causes growth

David de Ferranti and Anthony J. Ody, 2007 did a survey similar to that of John Humphrey, 2003. They extend the sample to 98 countries for the period from 1960 to 1985 but use only one financial indicator: ratio of bank credit to the private sector to GDP. They also separately explore the relationship between financial intermediation and growth for the data set of twelve Latin American countries during 1950 to 1985.

Detragiache, E., Gupta, P. and Tressel, T., 2005 show that although the impact of commercial bank financing on private sector growth is broadly positive, it changes according to regions, time periods, and levels of income. The positive effect is especially strong in middle- and low-income countries. It is stronger in the 1960s than in the 1970s and 1980s. Furthermore, the effect of financial intermediation on private sector growth is due mainly to its impact on the efficiency rather than the volume of investment. For Latin America they find negative correlation due to, according to their opinion, financial liberalization during the 1970s and 1980s in conditions of an inadequate regulatory environment. Detragiache, E., Gupta, P. and Tressel, T., 2005 partly confirm their finding by stressing country heterogeneity. They apply time series analysis to sixteen countries for the period between 1960 and 1990, with the ratio of bank deposit liabilities to GDP and ratio of bank claims on the private sector to GDP as financial development indicators.Odedokun, M. O., 1996 stated that it is not possible to make a general statement whether commercial bank financing is truly an engine of private sector growth or just a sign of the evolution of the whole economy due to independent factors.

The secondary functions include making and advancing loans to all types of persons, particularly to the private sector, clearing of cheques, financing foreign trade and remittance of funds. Here it is the private sector on the receiving end. Loans are made against personal security, gold and silver, stocks of goods and other assets (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003). The most common way of lending is by:

In this case, the depositor in a current account is allowed to draw over and above his account up to a previously agreed limit. Suppose a businessman has only Rwf. 30,000,000/- in his current account in a commercial bank but requires Rwf. 60,000,000/- to meet his expenses.

He may approach his commercial bank and borrow the additional amount of Rwf. 30,000,000/-. The commercial bank allows the customer to overdraw his account through cheques. The commercial bank, however, charges interest only on the amount overdrawn from the account. This type of loan is very popular with the Rwandan private sector (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003).

Under this account, the commercial bank gives loans to the borrowers against certain security. But the entire loan is not given at one particular time, instead the amount is credited into his account in the commercial bank; but under emergency cash will be given (Allen & Ndikumama (1998). The borrower is required to pay interest only on the amount of credit availed to him. He will be allowed to withdraw small sums of money according to his requirements through cheques, but he cannot exceed the credit limit allowed to him. Besides, the commercial bank can also give specified loan to a person, for a firm against some collateral security. The commercial bank can recall such loans at its option (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003).

This is another type of lending which is very popular with the commercial banks. The holder of a bill can get it discounted by the commercial bank, when he is in need of money (Allen & Ndikumama (1998). After deducting its commission, the commercial bank pays the present price of the bill to the holder. Such bills form good investment for a commercial bank. They provide a very liquid asset which can be quickly turned into cash. The commercial banks can re-discount the discounted bills with the central commercial banks when they are in need of money. These bills are safe and secure. When the bill matures the commercial bank can secure its payment from the party which had accepted the bill (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003).

Commercial banks also grant loans for a very short period to the borrowers, usually dealers or brokers in stock exchange markets against collateral securities like stock or equity shares, debentures, etc., offered by them. Such advances are repayable immediately at short notice hence; they are described as money at call or call money (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003).

Commercial banks give term loans to traders, industrialists and now to agriculturists also against some collateral securities. Term loans are so-called because their maturity period varies between 1 to 10 years. Term loans; as such provide intermediate or working capital funds to the borrowers. Sometimes, two or more commercial banks may jointly provide large term loans to the borrower against a common security. Such loans are called participation loans or consortium finance (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003).

Commercial banks also grant credit to private sector businesses to buy some durable consumer goods such as television sets, refrigerators, etc., or to meet some personal needs like payment of hospital bills etc. Such consumer credit is made in a lump sum and is repayable in installments in a short time. Under commercial bank creativity, the scope of consumer credit has been extended to cover expenses on marriage, funeral etc., as well (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003).

Among other forms of commercial bank advances there are packing credits given to exporters for a short duration, export bills purchased/discounted, import finance-advances against import bills, finance to the self employed, credit to the public sector, credit to the cooperative sector and above all, credit to the weaker sections of the community at concessional rates (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003).

A unique function of the commercial bank is to create credit. Commercial banks supply money to traders and manufacturers. They also create or manufacture money. Commercial bank deposits are regarded as money. They are as good as cash (Allen & Ndikumama (1998). The reason is they can be used for the purchase of goods and services and also in payment of debts. When a commercial bank grants a loan to its customer, it does not pay cash. It simply credits the account of the borrower. He can withdraw the amount whenever he wants by a cheque. In this case, commercial bank has created a deposit without receiving cash. That is, commercial banks are said to have created credit. Sayers says "commercial banks are not merely purveyors of money, but also in an important sense, manufacturers of money" (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003).

Commercial banks, on account of their network of branches throughout the country, also provide facilities to remit funds from one place to another for their customers by issuing commercial bank drafts, mail transfers or telegraphic transfers on nominal commission charges. As compared to the postal money orders or other instruments, commercial bank drafts have proved to be a much cheaper mode of transferring money and has helped the business community considerably (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003).

The commercial banks render an important service by providing to their customers a cheap medium of exchange like cheques. It is found much more convenient to settle debts through cheques rather than through the use of cash. The cheque is the most developed type of credit instrument in the money market (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003). The commercial bank finances internal and foreign trade through discounting of exchange bills. Sometimes, the commercial bank gives short-term loans to traders on the security of commercial papers. This discounting business greatly facilitates the movement of internal and external trade (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003).

These commercial banks advise the private sector regarding the sale and purchase of shares and debentures. The commercial banks play a vital role in accelerating private sector growth and development. Rwanda commercial banks were specially established to encourage thrift among small savers and therefore, they are willing to accept small sums as deposits. They encourage savings of the poor and middle class people (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003).

A commercial bank is important to the private sector because it acts as an "intermediary" in the credit and deposit business. Clients "bring" to the commercial bank their savings, i.e. the money they have chosen not to spend. The commercial bank transfers this money to its credit clients in the form of loans (Odedokun, M. O., 1996). The fact that these private sector businesses get excess money to save, means that business is going well. So commercial banks develop the private sector by keeping this money for them to use in the future on other businesses thus developing the private sector (Ayyagari, Meghana., Thorsten Beck, Asli Demirgüc-Kunt (2003).

A commercial bank's loans lack liquidity, either partially or totally (Omar, Siti Sarah bt. and Ismail, Maimunah, 2009). This means that the commercial bank cannot sell them in return for demand deposits or central commercial bank funds whenever it likes. On top of this, a borrower's credit rating may change during the life of a loan, thereby changing the value of the loan at that point in time, which reflects the interest and amortization payments expected in the future. Due to the lack of a secondary market, credits are mostly carried in balance sheets at their nominal value, with provisions and write-offs only being formed or effected if there are any indications that the borrower may have trouble meeting payments or is actually in arrears. In some cases, credits may even become entirely worthless if borrowers become insolvent and commercial bankrupt (Omar, Siti Sarah bt. and Ismail, Maimunah, 2009).

On the other side of the balance sheet, a commercial bank guarantees its creditors the nominal value of their deposits plus interest due, irrespective of the profit or otherwise made in lending transactions (Rouseau, P. L. and Wachtel, P., 2007). Furthermore, the amounts a commercial bank owes are generally more liquid than the amounts it is owed; in other words, creditors can call in the amounts the commercial bank owes them more quickly than the commercial bank can call in what is due to it from its borrowers. One of the commercial banks' fundamental roles in the economy is to "transform" maturities at its own risk. This is part of the service it offers as intermediary and a form of risk management (Rouseau, P. L. and Wachtel, P., 2007).

Another function which the commercial banks perform within an economy is rating and selecting the loans they finance (Rouseau, P. L. and Wachtel, P., 2007). The supply of client deposits is limited; the demand for credit generally less so. This being the case, credits have to be subject to a selection process. The reason why this selection process cannot be performed solely via the price (or rate of interest) is that lending transactions are not the same as cash transactions, where payment is provided immediately upon a product or service being rendered. Instead, the borrower undertakes to make future payments of interest and principal. As a consequence, the commercial bank cannot base itself solely on the ability to pay as presented at that particular point in time; it also has to attempt to make some sort of assessment with regard to the borrower's ability to pay in the future (Rouseau, P. L. and Wachtel, P., 2007).

Through their activities as "agent", another essential function performed by the commercial banks is to reduce risks overall. A commercial bank that uses deposits from a large number of private households to finance loans to a large number of companies is leveraging the advantages of diversification. Insofar as depositors take the decision to withdraw their funds independently of one another, the commercial bank benefits from the Law of Large Numbers, given that it is not anticipating a situation where all depositors withdraw their savings at the same time (Rouseau, P. L. and Wachtel, P., 2007). Diversification places a role in the lending business, too, this time over a large number of companies and sectors.

In a securities issue, a commercial bank or group of commercial banks generally agrees to underwrite the entire amount of the issue. The securities acquired in this way are then offered for public subscription for the account and at the risk of the commercial bank or commercial banks involved (Allen & Ndikumama (1998). The risk that not all the securities will be placed with clients is carried by the commercial bank. The issuer, for its part, has immediately available to it the entire proceeds from the transaction, regardless of how successful the offering has been. For a commercial bank to be successful with an offering, it has to be able to gauge market conditions correctly at the time of the issue and has to have access to as broad a base of custody account clients as possible, in order to place the securities with these clients (Sylla, R. Tilly, R. and Tortella, G., 1999).

Securities issues are a volatile source of earnings, as we have seen over recent months with IPOs in particular. They can be lucrative, especially if they do not only involve the simple issuing of fixed-income paper but are structured around more complex transactions in several currencies with the aim of, for example, financing an acquisition. In transactions such as these, the in-depth analysis and specialist knowledge a commercial bank provides are critical (Sylla, R. Tilly, R. and Tortella, G., 1999).

The universal commercial banks active in the issuing sector face a whole range of potential conflicts of interest, given that issues often involve various parties from within and outside the commercial bank and that these parties are not motivated by the same interests: the issuance unit is interested in the offering, securities trading is looking for high revenues, asset management clients expect the commercial bank to safeguard their interests irrespective of its role in the issuing transaction, the lending unit may have information on the issuer that is otherwise not in the public domain, etc (Allen & Ndikumama (1998). Defusing and controlling potential conflicts such as these places enormous demands on a commercial bank's organizational structure, processes and compliance activities. Only when a commercial bank succeeds in controlling the potential conflicts and managing them on a transparent basis can the different stakeholders involved be sure that their legitimate interests are equitably upheld (Sylla, R. Tilly, R. and Tortella, G., 1999).

Asset management covers a range of commercial banking activities: portfolio management, investment advisory, securities trading and lending business (collateral loans, securities lending and borrowing) (Allen & Ndikumama (1998). With a discretionary portfolio management agreement, clients authorize a commercial bank to undertake, for their account and at their risk, all the actions it deems appropriate within the framework of the normal asset management activities of a commercial bank. Clients expect their assets to be managed professionally and in their best interests. The commercial bank contracts to exercise its undertaking to the best of its knowledge and abilities, taking into account clients' circumstances but acting as it sees fit within the scope outlined as part of the investment goals defined with the client (Tang T. C. (2003).

What is clear from this is that the singularly most important factor in asset management, independently of any law or regulation, is the trust a client has in his or her commercial bank. Our Association's Portfolio Management Guidelines form part of the regulations which a commercial bank must observe. These guidelines specify that a commercial bank which accepts portfolio management agreements must have appropriate professional organizational structures which are commensurate with the activities involved, that concentrations of risk must be avoided, that, where there are no instructions to the contrary, the commercial bank must invest in securities for which there is a ready market, etc (Tang T. C. (2003).

The asset management business places exacting requirements on commercial banks and commercial bankers in terms of the expertise and ethical issues involved. Under no circumstances can a commercial bank simply "do as it pleases" in the portfolios it manages for clients, nor should it be allowed to do so (Tang T. C. (2003).

The last business I mentioned was foreign exchange trading, an activity which has been unjustly attacked as "casino capitalism". Various factors have given rise to this perception. First, without a doubt the massive amounts traded in the foreign exchange markets every day. According to figures from the Swiss National Commercial bank, for example, in April 2001 foreign exchange trades in Switzerland alone amounted to CHF 121 billion each working day. (For the purposes of comparison, the global figure was USD 1,210 billion.) The vast majority of this trading takes place between financial intermediaries, the aim being to exploit even the slightest differences between exchange rates (arbitrage) (Zang, H. and Kim, Y. C., 2007). Only a very small proportion of these trades is used to finance foreign trade and hedge foreign currency positions. Furthermore, the fact that serious economic crises such as the one Argentina is experiencing at present are almost always currency crises may fuel suspicions that it is currency traders with their speculative attacks that trigger such developments (Zang, H. and Kim, Y. C., 2007).

In fact, the very opposite is true. Many people may fail to see the point of the vast amounts of arbitrage transactions, since they are not primarily used for financing purposes. In reality, however, they underpin liquidity in the markets, thus helping them to function smoothly. In less liquid markets, new information would inevitably lead to much greater volatility in rates. A distinction has to be made in the case of protracted currency over- or under valuations (in terms of interest rates and purchasing power parity), which are a genuine problem, as they could result in the misallocation of resources (Zang, H. and Kim, Y. C., 2007).

Commercial banks also perform certain agency functions for and on behalf of their customers. The agency services are of immense value to the people at large (Zang, H. and Kim, Y. C., 2007). The various agency services rendered by commercial banks are as follows:

Commercial banks collect and pay various credit instruments like cheques, bills of exchange, promissory notes etc., on behalf of their customers.

Commercial banks purchase and sell various securities like shares, stocks, bonds, debentures on behalf of their customers.

Commercial banks collect dividends and interest on shares and debentures of their customers and credit them to their accounts.

Sometimes commercial banks act as representative and correspondents of their customers. They get passports, traveler's tickets and even secure air and sea passages for their customers.

Commercial banks may also employ income tax experts to prepare income tax returns for their customers and to help them to get refund of income tax.

Commercial banks execute the standing instructions of their customers for making various periodic payments. They pay subscriptions, rents, insurance premia etc., on behalf of their customers.
Commercial banks preserve the 'Wills' of their customers and execute them after their death (Beck, Thorsten, Asli Demirgüç ,-Kunt, and Vojislav Maksimovic. 2006).

In addition to agency services, the commercial banks provide many general utility services for the community as given (Beck, Thorsten, Asli Demirgüç ,-Kunt, and Vojislav Maksimovic. 2006).
Commercial banks provide locker facility to their customers. The customers can keep their valuables, such as gold and silver ornaments, important documents; shares and debentures in these lockers for safe custody (Beck, Thorsten, Asli Demirgüç ,-Kunt, and Vojislav Maksimovic. 2006).
Commercial banks issue traveler's cheques to help their customers to travel without the fear of theft or loss of money. With this facility, the customers need not take the risk of carrying cash with them during their travels (Beck, Thorsten, Asli Demirgüç ,-Kunt, and Vojislav Maksimovic. 2006).
Letters of credit are issued by the commercial banks to their customers certifying their credit worthiness. Letters of credit are very useful in foreign trade (Beck, Thorsten, Asli Demirgüç ,-Kunt, and Vojislav Maksimovic. 2006).
Commercial banks collect statistics giving important information relating to trade, commerce, industries, money and commercial banking. They also publish valuable journals and bulletins containing articles on economic and financial matters (Beck, Thorsten, Asli Demirgüç ,-Kunt, and Vojislav Maksimovic. 2006).
Commercial banks may act as referees with respect to the financial standing, business reputation and respectability of customers (Beck, Thorsten, Asli Demirgüç ,-Kunt, and Vojislav Maksimovic. 2006).
Commercial banks underwrite the shares and debentures issued by the Government, public or private companies (Beck, Thorsten, Asli Demirgüç ,-Kunt, and Vojislav Maksimovic. 2006).
Some commercial banks issue cheques of various denominations to be used on auspicious occasions (Beck, Thorsten, Asli Demirgüç ,-Kunt, and Vojislav Maksimovic. 2006).

Sometimes, commercial banks accept bills of exchange, internal as well as foreign, on behalf of their customers. It enables customers to import goods (Beck, Thorsten, Asli Demirgüç ,-Kunt, and Vojislav Maksimovic. 2006).

Some commercial banks have opened merchant commercial banking divisions to provide merchant commercial banking services (Beck, Thorsten, Asli Demirgüç ,-Kunt, and Vojislav Maksimovic. 2006).

In recent years, commercial banks, particularly in developing countries, have been called upon to help achieve certain socio-economic objectives laid down by the state (Bencivenga, V. R. & Smith, B. D. (1991). For example, the commercial banks in Rwanda have framed special innovative schemes of credit to help small agriculturists, village and cottage industries, retailers, artisans, the self employed persons through loans and advances at concessional rates of interest (Allen & Ndikumama (1998). Under the Differential Interest Scheme (D.I.S.) the commercial banks in Rwanda advance loans to persons belonging to scheduled tribes, tailors, shoe-makers at concessional rates per cent per annum (Allen & Ndikumama (1998). This does not cover even the cost of the funds made available to these priority sectors. Commercial banking is, thus, being used to sub serve the national policy objectives of reducing inequalities of income and wealth, removal of poverty and elimination of unemployment in the country. It is clear from the above that commercial banks help development of trade and industry in the country. They encourage habits of thrift and saving. They help capital formation in the country. They lend money to traders and manufacturers. In the modern world, commercial banks are to be considered not merely as dealers in money but also the leaders in economic development (Kobusingye R, 2011).

In order to increase commercial bank presence to serve more clients and enjoy economies of scale, commercial banks have resorted to operating a number of braches. These branches offer the same service as the main bank but are in different geographical locations. Even some commercial banks in Rwanda are braches of foreign commercial banks.

2.9 Role of commercial bank financing in the development and growth of the private sector of Rwanda

2.9.1 Commercial bank financing promotes industrialization and trade:

The commercial bank financing helps to promote trade and set up of industries in a society. They help an emerging trade to stabilize by way of either giving loan or helping in securing their finance. This creates and increases employment thus a boost to the private sector since employment goes hand in hand with availability of money to spend as well as ability to consume the produced goods and services. Growth rate of industries is 1.7% (Allen & Ndikumama (1998).

2.9.2 Commercial bank financing to the private sector helps to break new ground for investment:

Because the commercial bank is mainly for commercial purposes they help corporate bodies and individual in the private sector to break new business ground that would yield better profit. Better profit means better corporate social responsibility activities. This boosts all the other sectors in the economy (Allen & Ndikumama (1998).

2.9.3 Commercial bank financing to the private sector promotes capital formation:

The commercial banks promote capital formation in the private sector for better investment. This means that the commercial bank helps to encourage business bodies, and individual in the private sector to save their money in order to have capital formation. This means that as they save their money with the bank, the bank again is using the same money as a loan to another member of the private sector thus development of the private sector. Rate of capital formation is 5 % in Rwanda (Allen & Ndikumama (1998).

2.9.4 Commercial bank financing to the private sector helps to bring rapid growth in a country:

Commercial bank financing to the private sector helps to bring rapid growth in a country thereby giving many private sector business entities the chances of doing business even without initial capital start-ups in the way of loan. Most of this loan is accompanied with collateral which would be required before a loan can be issued. This is encouraging entrepreneurship within the private sector, putting idle minds to use (Allen & Ndikumama (1998).

2.9.5 Commercial bank financing to the private sector helps in attaining Self Sufficiency:

A major problem faced by the private sector is burden of debts and dependence on other business entities. Commercial banks provide incentive for the entrepreneurs to take risks and to use idle resources for more and better production. So, commercial banks are helpful in attaining self-sufficiency. Commercial banks provide loan to develop the various economic sectors. It results in reduction in imports and increase in exports. Accordingly, commercial banks are very important to achieve the self-sufficiency (Allen & Ndikumama (1998).

2.9.6 Bank financing to the private sector causes implementation of Modern Technology:

Economic development without use of advanced and the most up-to-date technology is impossible. Almost in all the private sector, backward techniques of productions are used due to little or no capital. Commercial banks provide more funds to people to make it possible to acquire and use the modern techniques of production. Due to implementation of modern technology, there is increase in amount and quality of production, decrease in cost and save in time (Allen & Ndikumama (1998).

2.9.7 Commercial bank financing to the private sector develops the agricultural Sector:

All the regions and all the sectors of the economy are not equally efficient and developed in an economy. There is big need to develop the backward regions and sectors for the economic development. Rural areas and agricultural sector is still backward in Rwanda. Commercial banks are playing an important role in the development of rural and agriculture sector. Commercial banks have a major role in development of rural and agriculture sector. Growth rate of agricultural sector is 1.2 % (Allen & Ndikumama (1998).

2.9.8 Commercial bank financing to the private sector leads to Expansion of Market coverage:

Commercial banks help in the expansion of market. They help in the formation of sound economic infrastructure in order to raise living standards and to expand trade and commerce of an economy. Commercial banks cause development of industrial as well as agriculture sector. Accordingly, there is expansion of market that results in economic development (Allen & Ndikumama (1998).

2.9.9 Commercial bank financing to the private sector promotes Research and Development:

Commercial banks, sometimes, provide finances for research and development, which leads to inventions and innovations. Various institutes in Pakistan are operating by the loan provided by the commercial banks. Modern techniques are established and these are applied to economy in research institutes. Due to use of modern techniques of production, better quality and more quantity is produced which leads to improve the living standard of population (Allen & Ndikumama (1998).

2.9.10 Commercial bank financing to the private sector removes Budget Deficits:

The commercial banks are very helpful for the private sector. The private sector businesses have to face their budget deficits because of increased expenditures and falling revenues. In this situation, the private sector has to depend upon deficit financing to meet the budget deficits. To cover the gap between the expenditures and revenues, private sector business entities borrow from the commercial banks. As a result, the development process can be started through borrowed money from commercial banks (Allen & Ndikumama (1998).

2.9.11 Commercial bank financing to the private sector leads to optimum Utilization of Resources:

Commercial banks help in the just and optimum allocation of resources. Some mega projects cannot be started due to the lack of capital by private sector entrepreneurs. Commercial banks provide loans and remove the problem of deficiency of capital.

Due to use of resources in an economy, there is increase in production, income and employment etc. Increase in these things leads to economic development (Allen & Ndikumama (1998).

2.10. Conclusion

Based on the literature review, it can be more or less concluded that finance intermediation appeared as lubricant of private sector businesses to become competitive in a goods and service production-based economy. There is no doubt that the importance of commercial bank financing for private sector development is highly acknowledged in Rwanda.

The nutshell of this study was to provide the overview of the extent to which commercial bank financing influences private sector development and growth in Rwanda. Although this study does not provide empirical evidences of People's Bank, it will contribute addition to literature review and knowledge regarding commercial bank financing in the development of the private sector in Rwanda. However, it is suggested that in a goods and service production -based economy, the commercial bank financing appears as the most critical factor for the development and growth of the private sector in Rwanda. Therefore, future empirical studies in this area should be focused.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

This chapter covered the research design, study population, sample size, sampling techniques and techniques that used in the data collection, the various sources of data and types of data that were collected, the main research instruments that were used in data collection as well as the techniques that were used to analyze data.

3.1. Research Design

The researcher approached the study using cross-sectional survey methodology to describe the commercial bank financing and the way this has led to the development of private sector in Rwanda.

3.2. Study Population

The researcher's study population was 260 People's Bank staffs,420 private sector operators and 140 staffs of the national bank of Rwanda. This study population was chosen for the reason that the three stakeholders were the ones dealing with.

3.3. Sample Size

Random sampling technique were used to obtain a sample of 150 for People's Bank staffs ,200 for private sector operators and 100 for staffs of the national bank of Rwanda by using Krejcie and Morgan table (1970).

3.4. Sampling Techniques

The researcher used simple random sampling technique for the all categories of the respondents in order to give all of them equal chance of being included in the sample.

3.5. Sources of Data

3.5.1. Primary Data

Primary data were collected from the original source which was People's Bank, in an uncontrolled environment.

3.5.2 Secondary Data

Secondary data was data the researcher obtained from secondary sources such as reports, books, journals, documents, magazines and web sites.

3.6. Data Collection methods

3.6.1. Questionnaire

Under this study questionnaires were used to collect data from respondents. The research assistants under the supervision of the researcher were used to administer the questionnaires and provide clear explanations where necessary.

In addition, the study had three types of questionnaires, one being a questionnaire for people's bank of Rwanda staff, another one for private business operators, and the last one for the central bank staff. Questionnaires were prepared in such a way that the following were observed, anonymity, being as short as possible, key information were covered, logical and user friendly questions were also taken into consideration.

3.7. Data Processing

The data collected were processed and converted into information in a form that was helpful to the user

3.7.1. Editing

Inspection and correction was done to the raw data to ensure the completeness, accuracy, logic and meaningful responses.

3.7.2 Coding

Coding was used in this research in order to summarize and classify the responses received into categories for easy interpretation.

3.7.3 Tabulation

Hand tabulation was an essential tool used to enable the researcher to establish frequency and calculate percentages of responses. The tables were translated to give the relationship between the relevant variables.

3.7.4 Data quality control

Some preliminary work was done to clean up data before analysis. Raw data were edited to detect various errors, omissions, ambiguities of responses as well as irregularities. Those with a margin of error, inconsistencies and omissions were rejected.

3.8. Data Analysis

After successful and proper data acquisition and processing, the researcher used quantitative and qualitative data analysis methods. Tables were used in showing the frequencies and percentage of respondents to particular questions.

3.9. Limitations of the Study

The major limitation during this study was the respondents' willingness to provide all information requested because some respondents considered the study as if they are on what they are daily doing.

3.10. Ethical Consideration

During the process of data collection, the ethical and moral issues were considered necessary sin order to get clear and professional feedback from the respondents. The respondent's participation was based on moral and conducive environment at the time of contact.

The aim of this research was academic, the data needed helped the researcher during the study not to use any kind of bribe or free gifts to get information but only persuasiveness in terms of language used, body language and gestures to capture the maximum cooperation from the respondents. The researcher was used the informed consent given by Director of Postgraduate studies then ensure that all information given would be coded with utmost confidentiality

CHAPTER FOUR

4.0. PRESENTATION, INTERPRETATION AND ANALYSIS OF FINDINGS

This chapter explains the organization of the analysis. The first five sections give a survey of the data, and introduce the dependent and independent variables. The last two sections consist of a preliminary data analysis.

The purpose of this chapter was to present, analyze and interpret the data obtained from People's Bank. The analysis and interpretation are based on the research objectives. The major tools included tables with percentages and frequency pie charts and bar graphs. It should be noted that one respondent was entitled to one response per question.

Response Rate

The researcher gave out 140 questionnaires to People's Bank and 135questionnaires were returned. The response rate was 97%.

Table 4.1: Percentage distribution of issued and returned questionnaires of respondents

Questionnaire to	Administered	Completed and Returned	Percentage
BPR	150	140	93
Private sector	200	198	99
BNR	100	88	88
Total	**450**	**426**	**95**

Source: Primary Data

From the above table, it is revealed that a total of 450 questionnaires were administered and 426 were duly filled and returned. Therefore, the average response rate considered adequate for this research was 95%.

Table 4.2: Distribution of responses by age

	Frequency	**Percentage**
below 25 years	16	2
25 – 35	129	31
36 – 45	201	48
46 – 55	64	15
Above 55 years	16	4
Total	**426**	**100**

Source: Primary Data

From the above table, it is evident that 48% of responses were from respondents aged 36 – 45, followed by 31% of responses from respondents aged 25 – 35. Other respondents aged 46 – 55 formed 15%, above 55 years made 4% and below 25 years were 2% of the respondents.

This shows that the responses cut across a wide range of age difference and therefore shall not hold any sentiments to responses according to age of respondents but rather take responses as they are given.

Table 4.3: Responses about BPR offering financing to the private sector entities.

Responses	**Frequency**	**%age**
Yes	100	100
No	0	0

Source: Primary Data

According to the table above table, all the respondents agree that BPR offers financing to private sector businesses. Since the respondents are BPR employees, it means that they are aware of the fact that their bank offers financing to the private sector businesses.

About the kind of financing BPR gives private sector operators, it was mentioned that financing was in form of working capital, salary loans, overdrafts, mortgage loans, trade financing (letters of credit), and business loans.

About the sectors BPR finances, all the respondents said all the sectors in the private sector are financed. These include agriculture, trade and commerce, transport, health, education, tourism, manufacturing and industry, construction and real estate.

Table 4.4: Responses about whether Private sector players had ever applied for financing in BPR

	Frequency	Percentage
Yes	195	98
No	3	2
Total	198	100

Source: Primary Data

The researcher asked the private sector players whether they had ever applied for financing from BPR in order to test whether the private sector players actually get and use commercial bank financing for their business development and growth. The table above shows that 98% of the respondents acknowledged that they had ever applied for commercial bank financing and only 2% of the respondents said they had never applied for financing from BPR or any other commercial bank.

This means that commercial bank financing to the private sector fuels business growth and development in the private sector. This is so because the private sector players do not want to use their own money but rather bank money.

Table 4.5: Reason for private sector obtaining financing

	Frequency	Percentage
Start up	67	34
Expand operations	123	62
Trade Finance	198	100
better infrastructure	82	41
buy new machines and equipment	101	51
Working Capital	198	100
Housing	91	46
Others	55	28

Source: Primary Data

The researcher asked the private sector players the reasons as to why they were applying for financing from commercial banks. The reason was to see how the private sector utilizes financing from commercial banks. All the respondents from the private sector said they use commercial bank financing to finance trade and for working capital. 123 respondents said they used financing from commercial banks to expand their operations to include new products as well as enter new markets. 101 respondents from the private sector said they used finance from commercial banks to buy new machines and equipment. 91 respondents from the private sector said they used finance from commercial banks to buy new houses. 82 respondents from the private sector said they used finance from commercial banks to put up better infrastructure. 67 respondents from the private sector said they used finance from commercial banks to start up new businesses. 55 respondents from the private sector said they used finance from commercial banks to use for other businesses.

Basing on the above information, it can be concluded that most of the private sector players who apply for financing from commercial banks use it for business purposes although there were some respondents who said they use commercial bank financing for other businesses. This largely means that commercial bank financing of the private sector fuels private sector development and growth since most of the respondents from the private sector have ever applied for this financing and for business purposes.

Table 4.6 : Frequency of financing application

	Frequency	**Percentage**
First time	44	22
Second time	90	45
Third time	51	26
More than three times	13	7
Total	**198**	**100**

Source: Primary Data

From the data above, all respondents revealed that they had at least applied for financing from commercial banks. 45% of the respondents said they had applied for financing at least two times, 26% of the respondents said they had applied for financing at least three times, 22% of the respondents said they had applied for financing at least once and only 7% of the respondents said they had applied for financing more than three times.

This reveals that the private sector applies for and uses financing from commercial banks. Further, it seems that the more the new private sector players entry into business, the more the applications for financing. This is evident above as it has so far been two years since the government started encouraging people to create jobs in the private sector. But maybe because of inexperience and management challenges, some fall out and that is why the number of applications for financing reduces as time passes by.

Table 4.7: Private sector finance dispensation mode used by BPR

Responses	Frequency	%age
Cash	12	9
Credit Account	128	91

Source: Primary Data

From the above table, 91% of respondents revealed that BPR dispenses finance to the private sector though crediting their accounts while only 9% said BPR dispenses finance to private sector by cash. While it may be true that BPR dispenses cash finance private sector operations, this is in special cases as disbursing funds cash makes the bank miss on the withdrawal revenue while it is so true that BPR dispenses financing to the private sector through crediting the business entity account in BPR because doing so means that all the time money is withdrawn from this account, BPR will be earning withdrawal fees.

Table 4.8: Responses about whether BPR monitors how the private sector business entity uses the financing given to them

Responses	Frequency	%age
Yes	140	100
No	0	0

Source: Primary Data

From the above table, it is revealed by all the respondents that BPR monitors how the private sector business entity uses the financing given to them. This is done by BPR disbursing funding in phases. Before a phase is completed, you can not have funding to continue with the next phase. They keep coming to check how the funds are being used as well as give advisory about the project. This helps the private sector businesses because when they do things as they agreed with the bank, it is easy for them to even get more money if what they had given you was not enough maybe because of economic changes.

Table 4.9: Responses about when repayment deductions are made.

Period	Frequency	%age
Monthly	130	93
Quarterly	5	4
Bi – Annually	3	2
Annually	2	1
	140	**100**

Source: Primary Data

From the above table, it is put forward that 93% of the responses said BPR private sector finance repayment is monthly. 4% of the responses agreed that finance repayment to BPR is Quarterly, 2% said repayment was bi annually and only 1% said annually. While all respondents agreed that there are special cases when private sector businesses repay their loans quarterly, bi annually and annually, they all agreed that all their private sector businesses repay monthly. The respondents who said repayment is annually, bi annual and quarterly wanted to take into account the special cases groups.

All respondents showed that BPR financing impacts the private sector entities. They showed that this is in ways as businesses of their private sector clients have expanded in volume of stock, increased on market coverage to include export, increased quality and quantity of goods and services produced as well as increased on the number of workers.

Table 4.10: Responses about when BPR knows financing impacts on the private sector businesses

Measure	Frequency
Repeat client	130
Recommendation to a friend	140
Customer Friendship	102
Call from Customer	77
Other. Please specify	**0**

Source: Primary Data

The above table shows that all respondents said when their private sector client recommends a friend to them; they know financing impacted their private sector businesses positively. 130 respondents said if a private sector client came to them more than once, they would know the BPR financing had a positive impact on to that business. 102 respondents showed that if a private sector business owner who acquired financing from BPR became their business friend, they would know that BPR financing had a positive impact on to their businesses. 77 respondents said if they received a call from the private sector business owner, they would know that BPR financing had a positive impact on to their businesses.

This implies that all respondents ascertain that repeat client, recommendation to a friend, customer friendship and call from customer are some of the measures of impact of financing of the private sector. Indeed it is difficult to keep it to yourself or even not to repeat if you got good service. Therefore responses to this question give a true feeling and reflection of private sector business entity and are therefore very valid to this research.

Table 4.11: Responses about the amount of financing to the private sector businesses

Response	Frequency
All the budget	12
85% of budget	40
70% of budget	68
50% of budget	13
Below 50% of budget	7

Source: Primary Data

The table above shows that 68 respondents said BPR finances 70% of the total budget of the activity the private sector business is going to undertake. 40 respondents said BPR finances 85% of the private sector business activity. 13 respondents said BPR finances 50% of the activity budget of the private sector business. While 12 respondents said BPR funds 100% of the private sector business budget, only 7 respondents said BPR funds less than 50% of the activity budget.

The differing responses help to reveal that there is no standard amount of BPR funding to the private sector. It all depends on the sector where the activity lies and the timing. There are times when you find there is special funding available to the private sector groups like women. When such special funding is available, some private sector business entities secure 100% funding while in other times, you find funding is determined by how well a private sector business activity is thought out and sold to the bank. If the bank feels the activity is very risky, they will not give you funding. If the bank feels they can bare with the risk there is, they will give you less funds while if the bank finds there is no risk, they can even give you 85% of funding.

Table 4.12: Responses about how many new financing applications BPR receives from the private sector per year

	Frequency	**%age**
less than 100	25	18
101-900	40	29
901-9,000	74	53
More than 9,000	1	1

Source: Primary Data

The above table shows that 53% of the respondents said BPR receives between 901 and 9,000 new financing applications every year. 29% of the respondents said BPR receives between 101 and 900 new financing applications every year. 18% of the respondents said BPR receives less than 100 new financing applications every year and only 1% of the respondents said BPR receives More than 9,000.

BPR has more than 150 branches country wide and is present in all regions of the country. While the respondents said that BPR can't exceed 9,000 new financing applications, and if we assumed that each BPR branch got one application every day for a whole year, would come to 36,000 applications in a year. This assumption takes into account that in some regions, they might even spend a week without any applications but this would be compensated by urban braches that handle more than 36 financing applications daily.

So the above response got from the questionnaire is misleading since all the respondents did not give a true number or even a likely number of financing applications from the private sector received by BPR

Table 4.13: Responses about BPR's role in private sector development

	Frequency	**%age**
Financing	140	100
Advisory	129	92
Both of the above	133	95
None of the above	0	0

Source: Primary Data

From the table above, 100% of respondents said BPR's role in private sector development is financing. 92% of respondents said BPR's role in private sector development is advisory and 95% of respondents said BPR's role in private sector development is both financing and advisory. No respondent did not agree with the above statement.

This means that all the respondents know that BPR on top of financing private sector business development and growth provides advice on viable projects, where and when to invest their savings as well as timing for expansion of business into new markets. If all private sector businesses functioned like this, Rwanda's economy would be more flourishing but unfortunately, this is not true. Several factors account for this low level of financial intermediation in Rwanda:

CHAPTER FIVE

5.0. SUMMARY OF THE FINDINGS, CONCLUSION, AND RECOMMENDATIONS

The chapter attempts to discuss the summary of findings into a set of knowledge that would guide the conclusion and recommendations.

5.1. Summary of findings

The data collated from the questionnaires from commercial banque (Banque Populaire du Rwanda), Private Sector and National Bank of Rwanda, were impressive based on the number of returned questionnaires to the researcher from the respondents and the level of cooperation exhibited by the respondents engaged.

5.1.1. Findings to Commercial Banks (BPR):

The researcher found that the commercial banks in Rwanda have prayed role by giving loans to businessmen in Rwanda such as the business loans in terms of line of credit, term loans, overdraft, invoice discount etc and construction loans for the development of private sector. but there are some conditions or requirements which have to be met first in order to secure these loans.

The findings show that commercial banks facilitate private sector by managing their deposited funds.

It was found the commercial banks help private sector in providing trainings for the people on how they can run their business profitably.

5.1.2. Findings to Private sectors:

The researcher found that businessmen have complained not to receive the sufficient amount from commercial banks compared to the requested amount.

The researcher found that private sector is asked to provide collateral security as a precondition to secure the loans which is not an easy task to perform for businessmen.

It was found that the private sector complained about the higher interest rates charged by commercial banks while providing loans to them.

The researcher found that private sector was complaining about the higher bank charges applied to them which discourage the whole process of requesting loans.

It was found that the private sector was not happy of how long it takes to process the loans on the commercial bank side which delays the rapid growth of the business.

It was found that most respondents believed that the commercial banks in Rwanda do not satisfy all of their financing needs.
The findings show that bpr network does not facilitate private sector to do business conveniently.

5.1.3. Findings to the National Bank of Rwanda:

It was found that national bank of Rwanda sets different regulations for commercial banks in order to help the private sector access to finance easily.

The researcher found that the national bank of Rwanda sets the base rate in order to avoid high rate applied to private sector by the commercial banks.

The findings showed that National Bank of Rwanda require all commercial banks to provide monthly report of different activities done in order to assess their impacts on the development of the private sector.

5.2. Conclusion

Private sector financing by commercial banks is necessary to create an economic environment that enables firms to be set up, grow and prosper. The private sector in Rwanda, however, faces significant barriers to access finance. Financial constraints are high in Rwanda in general, but private sector is particularly constrained by gaps in the financial system such as high administrative costs, high collateral requirements and lack of experience within financial intermediaries. Increased Private sector financing can improve economic conditions in Rwanda. Private sector financing by commercial banks was found as one of the driving factors of an enabling economic environment. The Investment Climate Surveys of the Rwanda development board show that Private sector financing by commercial banks improves firm performance. It not only facilitates market entry, growth of companies and risk reduction, but also promotes business activities. Furthermore, firms with greater access to capital are more able to exploit growth and investment opportunities. Private sector faces disproportionate barriers to finance, especially in Rwanda. Private sector faces a financing gap. Financing for Private sector is limited, particularly when compared to commercial debt for large firms and microfinance. Often, the costs and risks of serving Private sector are perceived to be too high by commercial finance. The loans provided by the commercial banks on the other hand, are too small to meet SME capital needs. Increased Private sector financing by commercial banks will foster efficient growth in the private sector.

5.3 Recommendations

From the findings above, the following are the recommendations:

5.3.1. Recommendations to Commercial Banks (BPR):

The researcher recommended that commercial banks which is in our case BPR should keep providing loans private sector in big amount to bost their businesses.

BPR should keep facilitating private sector by giving different facilitations to businessmen aimed at increasing the growth and development of the private sector

BPR has to manage the client deposits in order to maintain good relationship with the businessmen.

BPR has to keep providing trainings to the private sector in order to make it more competent in running the business and good relationship with it.

5.3.3. Recommendations to the National Bank of Rwanda:

BNR has to set regulations that make private sector easily access finance from the commercial banks.

BNR has to set the base rates which do not encourage commercial banks to charge high interest rates to their customers.

BNR has to keep monitoring commercial banks and require them to present the monthly reports aimed at assessing their impact on the development of the private sector.

5.4. Areas of further research

The assessment of the commercial banks financing towards poverty eradication in Rwanda through the involvement of the private sector.

To find out the contribution of commercial bank services like electronic banking to accelerate the development of the private sector in Rwanda.

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APPENDICES

Appendix 1

COMMERCIAL BANK FINANCING AND THE DEVELOPMENT OF THE PRIVATE SECTOR IN RWANDA

PEOPLE'S BANK QUESTIONNAIRE

I am Iryamukuru Michael, a final year MBA student at Kampala International University. I am conducting an academic research on Commercial bank financing and the development of the private sector in Rwanda as a requirement for the award of the Masters degree in Business Administration, Finance and Banking option. Therefore, I would like to kindly request you to spare a few minutes to respond to the following questions such that I may be able to make an informed judgment about Commercial bank financing and the development of the private sector in Rwanda.

Please kindly complete and return this questionnaire within two weeks. The information you will provide will be used solely for academic purposes and will be treated in strict confidence in accordance with the Data Protection Act. Neither individuals nor the workplace will ever be identified in the published results.

INSTRUCTIONS:

a). Where possible, the figures you provide in this questionnaire (for example, about your turnover) should relate only to your products in a specific period.

b). Where possible, figures should cover the calendar year 1st January – 31st December.

c). Please leave the item blank if you do not know how well an objective was met.

d). Please give best estimates if you do not have exact data.

PLEASE TICK APPROPRIATE RESPONSE.

1. Do you offer financing to the private sector entities? Please Tick Appropriate Response.

Yes ☐ No ☐

2. If yes, what kind of financing do you offer?

____

____

____

__________3. If yes, do you finance all sectors of the private sector businesses? Please Tick Appropriate Response.

Yes ☐ No ☐

4. What are People's Bank conditions of financing the private sector? Please list them

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__________5. Do you give cash or credit the account of the private sector entity who qualifies for your financing? Please Tick Appropriate Response.

Cash ☐ Credit account ☐

6. Do you monitor how the private sector business entity uses the financing you give them? Please Tick Appropriate Response.

Yes ☐ No ☐

7. When do you deduct your money from the private sector entity?

Monthly ☐ Quarterly ☐ Bi - annually ☐ Annually ☐

8. Do you know whether BPR financing impacts the private sector entities?

Yes, it impacts ☐ No impact ☐

If yes, in what ways?

____

____

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____

9. When do you know your financing impacts the private sector businesses?

Repeat client ☐

Recommended to a friend ☐

Customer Friendship ☐

Call from Customer ☐

Other. Please specify ☐

10. How much is your minimum and maximum financing amount to the private sector businesses?

All the budget ☐

85% of budget ☐

70% of budget ☐

50% of budget ☐

Below 50% of budget ☐

11. How much time do you give the private sector businesses financing amortization?

Start up		**Already existing**	
1 year	☐	Less than 3 years	☐
2 years	☐	3 years	☐
3 years	☐	less than 7 years	☐
more than 3 years	☐	more than 7 years	☐

12. On average, how many new financing applications do you receive from the private sector per year?

less than 100	☐	101-500	☐
501-1000	☐	More than 1000	☐

13. How is the geographical distribution of your financing to the private sector in the last three years?

Kigali Ville ☐

Northern province ☐

Eastern Province ☐

Southern Province ☐

Western Province ☐

14. What is BPR's role in private sector development?

Financing ☐ Advisory ☐

Both of the above ☐ None of the above ☐

15. Are there any challenges that have befallen you because of working with the private sector? Please Tick Appropriate Response.

YES ☐ NO ☐

Please explain

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_____

16. Is there any other thing you would like to add?

YES ☐ NO ☐

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Appendix 2

COMMERCIAL BANK FINANCING AND THE DEVELOPMENT OF THE PRIVATE SECTOR IN RWANDA

PRIVATE SECTOR QUESTIONNAIRE

I am Iryamukuru Michael, a final year MBA student at Kampala International University. I am conducting an academic research on Commercial bank financing and the development of the private sector in Rwanda as a requirement for the award of the Masters degree in Business Administration, Finance and Banking option. Therefore, I would like to kindly request you to spare a few minutes to respond to the following questions such that I may be able to make an informed judgment about Commercial bank financing and the development of the private sector in Rwanda.

Please kindly complete and return this questionnaire within two weeks. The information you will provide will be used solely for academic purposes and will be treated in strict confidence in accordance with the Data Protection Act. Neither individuals nor the workplace will ever be identified in the published results.

INSTRUCTIONS:

a). Where possible, the figures you provide in this questionnaire (for example, about your turnover) should relate only to your products in a specific period.

b). Where possible, figures should cover the calendar year 1st January – 31st December.

c). Please leave the item blank if you do not know how well an objective was met.

d). Please give best estimates if you do not have exact data.

PLEASE TICK APPROPRIATE RESPONSE.

1. Have you ever applied for financing from commercial banks? Please Tick Appropriate Response.

Yes ☐ No ☐

2. If yes, how did you intend to use the requested financing?

Start up	☐	Trade Finance	☐
Expand operations	☐	Working Capital	☐
better infrastructure	☐	Housing	☐
buy new machines and equipment	☐	Others	☐

3. How many times have you applied for commercial bank financing? Please Tick Appropriate Response.

First time	☐	Second time	☐
Third time	☐	More than three times	☐

4. Is commercial bank financing so beneficial to your business? Please list them

Yes ☐ No ☐

5. If yes, How?

____

____

______6. When do you know that commercial bank financing so beneficial to your business?

market expansion	☐	increased production	☐

more machines		new buildings	
availability of working capital		new and better infrastructure	
Other			

7. Does commercial bank financing come as cash or the bank credits your account? Please Tick Appropriate Response.

Cash ☐ Credit account ☐

8. Do you use the financing for what you intended to do or along with other things? Please Tick Appropriate Response.

what was intended ☐ along with other things ☐

9. For how long have you worked with commercial banks?

Less than 6 months		more than 6 months less than 1 year	
more than 1 year less 3 years		more than 3 years less than 5 years	
more than 5 years			

10. Do you get the commercial bank financing amount sought?

All the amount requested	
85% the amount requested	
70% the amount requested	
50% the amount requested	
Below 50% the amount requested	

11. What do you do after realizing the benefits from commercial bank financing?

apply for more	☐
Tell a friend	☐
Banker Friendship	☐
Express gratitude to bank	☐
Other. Please specify	☐

12. What evident new things have you achieved as a result of using commercial bank financing?

Other line business Start up	☐	Trade Finance	☐
Expanded operations	☐	More Working Capital	☐
Better infrastructure	☐	New Housing	☐
New machines and equipment	☐	Others	☐

13. Where do you operate from, here in Rwanda?

Kigali Ville	☐	Northern province	☐
Eastern Province	☐	Southern Province	☐
Western Province	☐		

14. Are there any challenges that have befallen you because of using commercial bank financing? Please Tick Appropriate Response.

YES ☐ NO ☐

15. Please explain

____

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______

16. Is there any other thing you would like to add?

YES ☐ NO ☐

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Appendix 3

COMMERCIAL BANK FINANCING AND THE DEVELOPMENT OF THE PRIVATE SECTOR IN RWANDA

COMMERCIAL BANK REGULATOR QUESTIONNAIRE

I am Iryamukuru Michael, a final year MBA student at Kampala International University. I am conducting an academic research on Commercial bank financing and the development of the private sector in Rwanda as a requirement for the award of the Masters degree in Business Administration, Finance and Banking option. Therefore, I would like to kindly request you to spare a few minutes to respond to the following questions such that I may be able to make an informed judgment about Commercial bank financing and the development of the private sector in Rwanda.

Please kindly complete and return this questionnaire within two weeks. The information you will provide will be used solely for academic purposes and will be treated in strict confidence in accordance with the Data Protection Act. Neither individuals nor the workplace will ever be identified in the published results.

INSTRUCTIONS:

a). Where possible, the figures you provide in this questionnaire (for example, about your turnover) should relate only to your products in a specific period.

b). Where possible, figures should cover the calendar year 1st January – 31st December.

c). Please leave the item blank if you do not know how well an objective was met.

d). Please give best estimates if you do not have exact data.

e) For rating questions, Below Average = 45 and below, Average = 46 - 54, Good = 55- 64, Very Good = 65 – 74 and Excellent = 75 and above

PLEASE TICK APPROPRIATE RESPONSE.

1. Do you see commercial banks as an important way to increase private sector financial inclusion?

Yes ☐ No ☐

2. What are the different types of institutions that you supervise?

commercial banks	☐
savings banks	☐
credit unions	☐
Others	☐
All the above	☐

3. What are BNR objectives for regulating and supervising commercial bank financing?

Safety of the sector	☐
growth of the sector	☐
limiting contagion to other parts of the financial system	☐
Other	☐

4. How does BNR regulation of commercial bank lending impact private sector development?

____

____

______

5. What are the most challenging aspects of the regulation and supervision of commercial banks financing of the private sector?

______

______

______6. How do you evaluate the performance of commercial banks in financing the private sector?

Below Average ☐ Average ☐ Good ☐ Very Good ☐ Excellent ☐

7. Is there a limit to commercial bank debt to the private sector?

Yes ☐ No ☐

8. Do you have a financial consumer protection scheme in place?

Yes ☐ No ☐

9. Do commercial banks impose any special risks on the overall financial system of the country?

Yes ☐ No ☐

10. If so, could you specify?

______

______

______11. What efforts do you make to deal with these risks?

______

______

______

12. What are BNR conditions for commercial bank financing to the private sector? Please list them

______

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__________13. Do you encourage commercial banks to give cash or credit the account of the private sector entity who qualifies for financing? Please Tick Appropriate Response.

Cash ☐ Credit account ☐

14. Do you monitor commercial bank lending and other charge rates to the private sector? Please Tick Appropriate Response.

Yes ☐ No ☐

15. Do you know whether commercial bank financing impacts the private sector entities?

Yes, it impacts ☐ No impact ☐

If yes, in what ways?

____

____

____

____

16. When do you know commercial bank financing impacts the private sector businesses?

Repeat client ☐

Recommended to a friend ☐

Customer Friendship ☐

Call from Customer ☐

Other. Please specify

17. What is BNR's role in private sector development?

Financing

Advisory

Both of the above

None of the above

18. Is there any other thing you would like to add?

YES

NO

Appendix 4: INFORMED CONSENT FORM

INFORMED CONSENT FORM RELATED TO THE TOPIC OF COMMERCIAL BANK FINANCING AND DEVELOPMENT OF THE PRIVATE SECTOR IN RWANDA. A CASE STUDY OF BANK POPULAIRE DU RWANDA (BPR)

Consent agreement:

After reading research questionnaire related to above topic, I really understood the purpose of this undergoing study. I am committed to give my constribution as primary data provider in this research. This is because i was explained and ensured by researcher that provided information will be handled with high level of privacy and confidentiality and strictly used for academic purpose.

Respondent's name:	Respondent's Signature:	Date:
....	....	....
Reseracher's name	Researcher's signatuure	date
IRYAMUKURU Michel	....	....