THE ROLE OF THE CENTRAL BANK IN ECONOMIC DEVELOPMENT OF RWANDA A CASE STUDY OF NATIONAL BANK OF RWANDA (BNR)

BY

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A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELORS IN BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

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DECLARATION

I Mahoro Aimee Josiane declare that this dissertation report entitled the "Role of the Central Bank in the economic development of Rwanda "is my original work and has never been presented elsewhere for any academic qualification in any institution.

Signature: ………………………………………………..

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APPROVAL

This research project has been submitted by Mahoro Aimee Josiane BBA/20024/82/DF, for examination with my approval as university supervisor.

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LIST OF ABBREVIATIONS AND ACRONYMS

K.I.U	:	Kampala International University
B.A.C.A.R	:	Banque Continentale Africaine du Rwanda
B.C.R	:	Banque Commerciale du Rwanda
B.E.R.B	:	Banque d'émission du Rwanda-Burundi
BNR	:	Banque Nationale du Rwanda
OMO	:	Open Market Operation
ADF	:	African Development Fund
PADEBL	:	Projet d'Appui au Développement du Bétail Laitier
IDA	:	Internal Development Association
RIF	:	Rural Investment Facility
PFI	:	participating Financial Institutions
DMMF	:	Department of Money Market and Finance
BBA	:	Bachelor of Business Administration
NEPAD	:	New partnership for African's Development

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Abstract

This work was about "the role of the Central Bank in the economic development of Rwanda, case study of National Bank of Rwanda. This research was to investigate the vital role played by the bank in regulating and supervising financial institutions in Rwandan economy, also to analyze how central bank contribute in economic development through bank supervision and regulations, assess its interventions to facilitate private investment and give recommendations to the central bank on how it can improve its contribution to the economic development of Rwanda. In this dissertation, the researcher explained what a central bank is, the activities it performs within commercial banks and financial institutions. Entry and exit of commercial banks and financial institutions are analyzed. To collect needed information, the researcher used purposive sampling technique to determine the number of respondents from the whole population. Both primary and secondary sources of data were used to get needed information from the national Bank of Rwanda. Along with this research, I came up with major findings that answered the key questions.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

In every country, there is one bank which acts as a leader of the money market, supervising, controlling and regulating the activities of commercial banks and other financial institutions. It acts as bank of issue and close with the Government, as a banker, agent and adviser to the latter. Such a bank is known as the central bank of the country. Almost without exception, central banks were originally started as privately-managed joint stock banks. But they have now become important organs of the Government and there are many objectives to support economic policy of the Government by controlling and managing monitory and banking conditions in the country. The central bank is basically different from the commercial bank in four important aspects; it does not work to earn profits, though it may actually secure large profits. The central bank has special relation with commercial banks system of the country. It is given special power to control and regulate the working of latter. The central bank is generally an organ of the Government and forms part of the Government machinery. Its actions are closely coordinated with those of the other departments of the Government particularly with department of finance and treasury.

The central bank is managed by Government officials or those connected closely to the Government. Even though the central bank may be owned and managed by the Government, it is generally accepted that it should be an independent bank that should not be interfered by the Government in its day-to-day activities.

Of course, the Government has the power to prescribe the policy which central bank should follow but it should not interfere with the way the central bank functions. Even before 1940s when central banks where predominantly shareholders' banks, Government retained the power of appointing the top official and dictating the monetary policy to be carried out by the central bank.

1.1 Background of study

It is impossible to disassociate history from that of the former Congo and Burundi since three countries had until 1960 under the same colonial administration and a common currency issued by a common monetary authority.

The approaching expiry of the 10^{th} October, 1927 convention with the bank of Congo-Belge raised the issue of the latter extension. The Belgian government believed that the situation had changed since 1927. Given that the bank of Belgian Congo was no longer the only bank established in Congo, since other bank institutions from Belgium and other countries were already present.

Therefore, the bank of Belgian Congo could no longer play the role of the bank of banks (role of central bank) because it was competing with institutions it was supposed to supervise. A monetary reform was therefore necessary and was effected through the decree of 30^{th} July, 1951 Ia Banque d'Emission du Rwanda et du Burundi (B.E.R.B) authorizing the creation of a Congolese association of public law in change of carrying out tasks of public authority that the bank of Belgian Congo was performing until then.

It was the central Bank of Belgian Congo and Rwanda —Ulundi that took over the monetary issuing on 1^{st} July 1952, a day after the termination of the authority that the bank of Belgian Congo. The bank's new mission was to guarantee the stability of the currency, to promote the economic development of the country and ensure credit control of banks and exchange.

1.1.2 Creation of the issuing bank of Rwanda and Burundi

Congo became independent on 30^{th} June 1960 and acquired a political status different from that of Rwanda-Ulundi. Consequently, a review of statutes of the institutions common to Congo and Rwanda Ulundi was necessary. The royal degree of 21^{st} August 1960 established a public institution called<<Banque d'Emission du Rwanda -Ulundi >> (B.E.R.B) whose head office was Bujumbura with a branch in Kigali.

The bank d'Emission du Rwanda Ulundi mission was to promote the economic development, the development of human and material resources as well as currency stability.

Rwanda and Burundi common monetary system didn't last for long political, economic and psychological factors led to the dissolution of this union.

The National bank of Rwanda, established by the law of 24th April1964, came into force from 19th May 1964 with the aim of fulfilling one of its main missions, namely the issuing of currency of the Rwandan territory.

1.1.3 Mission statement

The mission of the national bank of Rwanda

- To formulate and put in practice the monetary policy in order to preserve value of the currency and to ensure the stability for a healthy financial economy.
- To organize and manage the foreign market by determining the conditions under which are carried out the transactions in currencies, in order to preserve the external stability of Rwandan franc and maintain a sufficient level of reserves.
- To curry out the supervision of Rwandan financial sector through offsite and on-site examinations of banks and financial institutions in conformity with the banking law to effectively ensure a permanent follow-up of their financial standing.
- In addition to the mission here before evoked relating to the monetary and financial policy, the BNR provides the function of cashier for the state and play as the role of advising it in economical and financial matters.

1.1.4 Headquarters and other branches

The BNR headquarters is located in the heart of Kigali city province about 200m from the state house in Nyarugenge District, specifically in Kiyovu Avenue Paul VI. It has branches in different Districts, Musanze (Ruhengeri), Rusizi (Cyangugu), Huye (Butare) and Rwamagana (Eastern province).

1.1.4.1 Branch function

The National bank of Rwanda on the provincial level;

- Brings the BNR services closer to the economic agents
- Meets the banking agencies needs, withdrawal and deposit of notes and coins.
- Collects financial and economic information in order to proceed to an analysis of the economic situation on the level of the region.

- Supervises and see the good function of banks

1.2 Statement of the problem

Banking system plays a central role in making payments, mobilizing and distributing savings. The task of central bank is to ensure that banks operate in a safe and sound manner and that they hold capital and reserves sufficient to support the risk that arise in their business. A monthly control is organized by BNR where balance sheet, income statement, risk management, credit delivery are checked in order to protect stakeholders' interests. However, despite different roles played by BNR in economic development, Rwanda economy is still among those that lag behind in the world. It is from this background that the researcher is interested in investigating thoroughly the role of the central bank in economic development of Rwanda.

1.2. Objectives of the study

General objectives

The aim of this study is to assess the role of central bank in economic development of Rwanda.

Specific objectives

- To examine the role played by central bank in regulating and supervising financial institutional in Rwanda.
- To analyze how the central bank contribute in economic development through bank supervision and regulations.
- To assess the central bank interventions to facilitate private investment.
- To give recommendations to the central bank on how to improve its contribution to the development of Rwanda.

1.3 Research questions

i. What is the role played by central in regulating and supervising financial institutions in Rwanda?

ii. How does the central bank contribute to the economic development of Rwanda Through supervision and regulation?

iii. What are the central bank interventions top facilitate private investment?

iv. What recommendations does the researcher give to the central bank on how to contribute to the economic development of Rwanda?

1.4 Scope of the study

The study was carried out in the Nation Bank of Rwanda which is situated in the district of Nyarugenge, in Kigali city.

The time span of this study was limited to the activities carried out within the national bank of Rwanda departments and in a period which starts from 2006- 2009.

The study focused on the contribution of the central bank in economic development of Rwanda.

1.5 Significance of the study

This study will be importance to the researcher, academic institutions and investors. To the researcher, it will be great importance for the requirement of the partial fulfillment for the award of the degree in business administration.

To Kampala and other academic institutions, this research will serve as reference to other future researchers who will carry similar research.

To investors, this research will show the facilities they have to invest in Rwanda.

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

This chapter is set out to elaborate theoretical framework of the present student with various definition of key concepts necessary for the well understanding of this current topic being studied.

2.1. Definition of key terms.

2.1.1. Central Bank

A central bank, reserve bank or monetary authority, is an entity responsible for the monetary policy of its country or of a group of members states. Its primary responsibility is to maintain the stability of the nation currency and money supply, but more active duties include controlling subsided-loan interest rates, and acting as a lender of last resort to the banking sector during times of financial crisis (Private banks often being integral powers, to ensure that banks and other financial institutions do not behave recklessly or fraudulently (http://en.wikipedia.org/wiki/central-bank).

According to De Known (2002) a well known authority on the subject, a central bank should perform the following seven functions:

(I) Bank issue

The issue of money was always the prerogative of the government. Keeping the minting of coins with it, the government delegates the right of printing currency notes to the Central bank. In fact, the right and privilege of note issue was always associated with the origin and development of central banks which were originally called as banks of issue. Nowadays, the central banks everywhere enjoy the exclusive monopoly of note issue and the currency notes issued by the central banks are declared unlimited legal tender throughout the country. At one time, even commercial banks could issue currency notes but there are certain evils in such a system such as lack of uniformity in note issue, possibly of over-issue by individual banks and profits of note issue being enjoyed only by a few private shareholders. But concentration of note issue being in only one bank —the central bank-brings about uniformity in note issue which, in turn, facilitates trade and exchange within the country, attaches distinctive prestige top the currency notes, enables the central bank to influence and control the credit creation of commercial banks, avoids the over-issue of notes and lastly, enables the government to appropriate partly or fully the profits of note issue. The central bank keeps three considerations in view as regards issue of notes uniformity, elasticity (more or less amount according to the need for money) and safety.

Banker, Agent and adviser to the Government

Central banks everywhere perform the functions of banker, agent and adviser to the Government. As bankers to the government, the central bank of the country keeps the banking account of the government —both of the central government and of the state, performs the same functions as a commercial bank ordinarily does for its customers. As a banker and agent to the government it helps the government with short-term loans and advances (known as ways and means advances) to tide over temporary shortage of funds. It also manages the public dept, i.e., floats, and services and redeems Government loans. It advices the Government on all monetary and banking matters.

Custodian of the Cash Reserves of Commercial banks

All commercial banks keep part of their cash balances as deposit central bank of the country, either because convention and because of legal compulsion. They withdraw funds from the cash reserves they keep with the central bank during the busy season and pay in surplus funds into these cash balance are meant for cheque clearing purposes .As all by one bank to another will be a simple book entry adjustment in the books of the central bank .The deposit balances kept by all commercial banks with the Central bank are known as cash reserves.

It is because of this function of holding the cash reserves of commercial banks that most central banks have come to be called as reserve banks. It is also because of this function that a central bank is called a Banker's bank.

Custodian of Foreign Balances of the Country

The central banks in countries maintain both gold as well as foreign currencies as reserves against issue and also to meet any adverse balance of payments with any other country. Besides, it is the responsibility of central banks to maintain reserves with international Money Fund (IMF)-this is referred to as normal drawing rights and special drawing rights. It is the responsibility of the central bank of country to maintain the rate of exchange fixed by the government and manage exchange control and other restrictions imposed by the state.

Lender of the last resort

One of the fundamental principles of the central banking is that the Central banking is that the Central bank (as the bank's bank and as the supreme banking authority) never refuses to accommodate any eligible commercial bank needing funds. At certain times of the year, e. g during harvesting and crop- moving seasons or in times of intense business activity, banks in agricultural countries may experience shortage of cash. In the absence of the central bank, ever commercial bank will have to carry substantial cash reserves with it to meet such emergencies. Large cash reserves imply restricted lending and reduced income by way of interest. If a central bank exists, it is easy for commercial banks to fall back on it in case of need .By lender of the last resort, it is implied that the central bank assumes the responsibility of meeting directly or indirectly all reasonable demands for accommodation by commercial banks in times of difficulties and crises.

Any commercial bank wanting financial assistance from the central bank can get it through rediscounting (selling) eligible securities. At one time rediscounting of eligible bills was the most important mode of getting additional funds from the Central bank. But in these days, rediscounting has lost much of its place has been taken over by other methods.

Central clearance, Settlement and Transfer

As bank's bank, the central bank keeps the cash balance of all commercial banks. It is easier for member banks to adjust their claims against each other in the books of the central bank. For example, if bank A has a cheque from Rs 1,000 on bank B which has a cheque for Rs 1,500 on bank A, the easiest way to clear and settle the two claims is for bank A to give a cheque to bank B for an amount of Rs. 500 on the central bank of the country. As a result of this transfer, Bank A's account will be credited by Rs. 500. There is thus no necessity for money to come into the picture at all. Apart from economy in the use of money, much of labor and inconvenience, associated with the individual system of clearance and settlement, is removed. This is not a major function of a central bank, for this function can be performed by any leading bank in a locality or area.

Controller of Credit

Probably, the most important of all the functions performed by a central bank is that of controlling the credit operations of commercial banks. We have seen that through expansion and contraction of bank credit, banks can expand or contract bank deposits in the country. In modern times, bank deposit has become the most important source of money in the country, relegating coins and currency notes to a minor position. It is also possible, as we have pointed out in the chapter, for commercial banks to expand credit and thus contribute to a deflationary situation.

It is thus, of great importance that there should be some authority to control the credit creation and credit contraction by commercial banks. As controller of credit the central bank attempts to influence and control the volume of bank credit and also to stabilize business conditions in the country.

Besides, these basic central bank functions, every central bank may perform other supervisory and promotional functions also (Sundharama & Varshney, 2002).

2.3 .Central bank in financial system (institutions)

The monetary policy implemented by the BNR strengthens the stability of macroeconomic finance work with the ultimate aim of encouraging development in general and specifically to efficiently carry out its main mission of preserving the value of national currency and ensure its stability. The National Bank of Rwanda implements a strict and efficient monetary policy that has, since more than ten years ago, ensured a sound macroeconomic stability.

It follows that the monetary sector is characterized by the control of inflation whose average rate is 5% over the period 1995-2005 and significant stability RWF with regard to foreign currencies.

2.3.1. Open-Market Operations (OMO)

Deliberate and direct buying and selling of securities and bills by the central bank in the money market, on its own initiative, is called open-market operations. The theory of open-market operations is as follows: In periods of inflationary situation, the central bank w ill sell in the market first class bills in its possession. Buyers of these bills — whether they are commercial bank themselves or others — make payments to the central bank through commercial banks. Commercial banks, we know, hold cash reserves or deposits with the central bank. Accordingly, payment by commercial banks to central bank for purchase of bills actually means reduction in size of the cash reserves held by commercial banks with the central bank. Reduction of cash reserves forces commercial banks to reduce their loans and advances and at the same time to refuse further loans to industrial and business sectors. Thus, business activities in the country which is based on bank loans and which is responsible in economic boom conditions will he cut short.

In times of business recession, the central bank will buy bills in the market for which it will pay cash to the commercial banks. When the commercial banks find their cash reserves increased, they expand their loans and advances and thus help in the expansion of investment, employment, production and prices. Thus, by buying and selling securities in the open market, the central bank influences the lending operations of commercial banks and ultimately influences business activity and economic conditions in the country.

2.3.1.1. Superiority of Open-Market Operations over Bank Rate

Strategically, Open-market operations, as a method of influencing the money supply is said to be superior to bank rate policy, primarily because the initiative to control the volume of money supply in the country is kept by the central bank itself, while the effectiveness of the discount rate policy depends upon the commercial banks. For instance in correcting an inflationary situation, the central bank may sell securities in the market and thus reduce the cash reserves the latter will reduce their loans and advances. But the bank rate policy is passive in the sense that its success depends upon the willing response of the commercial banks and their customers to changes in the bank rate. Still, bank rate policy is regarded as a major credit control mechanism and OMO is accorded only as a secondary measure.

2.3.1.2. The open-market operations policy important uses

Open-market operations are used to support the bank rate policy and make it effective. For example, in a period of business recession, the central bank will lower the bank rate and bring about reduction in the lending rates of commercial banks. This is to induce industry and business to borrow more from banks. At the same time, the central bunk \\ hi buy c unties from the market (OMO) and thus provide additional cash to commercial banks so as to enable them to increase their loans and advances. Open market operation are, therefore, used to create and maintain conditions of cheap money as an aid to business recovery, Open –market operations are used to support government securities. By buying Government obligations bills and bonds when the price is ruling low and selling them when their price is high, the central bank can bring about stability in the price of government securities.

Open—market operations influence the internal prices and wages and thus influence balance of trade and of payments. For instance, the selling of securities in the market by the central bank will reduce the cash reserves of commercial banks which will contract their loans and advances. A deflationary situation will result with falling prices and wages. The country's exports will be stimulated (because of increased foreign demand due to lower prices) while its imports will decline (because prices in foreign countries are at a higher level as compared to local prices). A favorable balance of trade and of payments will result.

2.3.2. Limitations of Open-market Operations

The success of open-market operations depends on one important assumption, viz, whenever commercial banks find themselves with additional cash, they will expand credit and whenever they find their cash reserves reduced, and they will contract credit. This assumption, however, may not hold well in practice, particularly in abnormal times.

We have shown earlier how the credit expansion and contraction reflect, to a great extend, the prevalent mood of businessmen and bankers. In boom period for instance, optimism prevails all round and bankers will be tempted to expand credit as much as possible and will not be unnecessary worried even if their cash reserves at the central bank are reduced by the open-market operations. Two alternatives are op to commercial banks to neutralize the open-market operations policy:

(a) The commercial banks may elect to work with low reserves, and (b) they may add to their cash reserve by discounting some of their eligible bills at the central bank.

During periods of recession and falling prices and growing unemployment, commercial banks will not expand credit despite higher cash reserves (Through the central bank buying securities from the market and paying cash against the). As a business recession is dangerous to companies and commercial banks, the latter may elect to work with higher cash reserves rather than expand credit. Moreover, the central bank, being the custodian of the deposit of the general public, will not have the moral force to compel commercial banks to lend more and risk the depositor's money. Above all, there is the most difficult and formidable problem associated with credit expansion, viz., and willingness of business men to come forward to borrow.

Thus open-market operations may not be useful to control a depression and bring about business revival. Finally, there are definite limits to what open-market operations can achieve by way of squeezing the resources available to banks since the willingness of banks to absorb securities in certain situations is limited. Moreover, they cannot be effectively used in a less developed country like ours as all conditions necessary for their success do not exist here. To conclude, the open-market operations method has become a recognized and regular technique of monetary management. As open-market operations affect the liquidity of commercial banks and consequently the amount available to them for lending or investing, they have been considered very powerful for influencing the volume of bank credit and money.
However, this weapon is generally used as a subsidiary instrument to support the bank rate policy.

2.3.3. Inflation targeting

The key issue facing Central Banks as we approach the end of the twentieth century is what strategy to pursue in the conduct of monetary policy.
One of the monetary strategies that have become increasingly popular in recent years is inflation targeting which involves the public announcement of medium-term numerical targets for inflation with a commitment by the monetary authorities to achieve these targets.

2.3.4. Capital requirements

All banks are required to hold a certain percentage of their assets as capital, a rate which may be established by the central bank or the banking supervisor. For international banks, including the 55 member central banks of the Bank for International Settlements, the threshold is 8% (see the Basel Capital Accords) of risk— adjusted assets whereby certain assets (such as government bonds) are considered to have lower risks and are either partially or fully excluded from total assets for the purposes of calculating capital adequacy cacuith. cphal adequacy. P.rt!v due to concerns al' t .

2.3.5. Reserve requirements

Another significant power that central banks hold is the ability to establish reserve requirements for other banks. By requiring that a percentage of liabilities be held as cash or deposited with the central bank (or other agency), limits are set on the money supply.

In practice, many banks are required to hold a percentage of their deposits as reserves. Such legal reserve requirements were introduced in the nineteenth century to reduce the risk of banks overextending themselves and suffering from bank runs, as this could lead to knock-on effects on other banks. As the early 20th century gold standard and late 20th century dollar hegemony evolved, and as banks proliferated and engaged in more complex transactions and ere able to profit from dealings globally on a moment's notice, these practices became mandatory, if only to ensure that there was some limit on the ballooning of money supply. Such limits have become harder to enforce. The People's Bank of China retains (and uses) more powers over reserves because the Yuan that it manages is a non-convertible currency.

Even if reserves were not a legal requirement, prudence would ensure that banks would hold a certain percentage of their assets in the form of cash reserves. It is common to think of commercial banks as passive receivers of deposits from their customers and, for many purposes, this is still an accurate view.

This passive view of bank activity is misleading when it comes to considering what determines the nation's money supply and credit. Loan activity by banks plays a fundamental role in determining the money supply. The money deposited by commercial banks at the central bank is the real money in the banking system; other versions of what is commonly thought of as money are merely promises to pay real money. These promises to pay are circulatory multiples of real money. For general purpose, people perceive money as the amount shown in financial transactions or amount shown in their bank accounts. But bank accounts record both credit and debts that cancel each other, only the remaining central bank money after aggregate settlement final money-can take only one of two forms:

- Physical cash, which is rarely used in wholesale financial markets.
- Central bank money.

The currency component of the money supply is far smaller than the deposit component. Currency and bank reserves together make up the monetary base, called MI and M2.

2.3.6 Exchange requirements

To influence the money supply, some central banks may require that some or all foreign exchange receipts (generally from exports) be exchanged for the local currency. The rate that is used to purchase local currency may be market-based or arbitrarily set by the bank. This tool is generally used in countries with non- convertible currencies or partially-convertible currencies. The recipient of the local currency may be allowed to freely dispose of the funds, required to hold the funds with the central bank for some period of time, or allowed to use the funds subject to certain restrictions. In other cases, the ability to hold or use the foreign exchange may be otherwise limited.

In this method, money supply is increased by the central bank when the central bank purchases the foreign currency by issuing (selling) the local currency. The central bank may subsequently reduce the money supply by various means, including selling bonds or foreign exchange interventions.

2.3.7 Margin requirements and other tools

In some countries, central banks may have other tools that work indirectly to limit lending practices and otherwise restrict or regulate capital markets. For example, a central bank may regulate margin lending, whereby individuals or companies may borrow against pledged securities. The margin requirement establishes a minimum ratio of the value of the securities to the amount borrowed.

Central banks often have requirements for the quality of assets that may be held by financial institutions; these requirements may act as a limit on the amount of risk and leverage created by the financial system. These requirements may he direct, such as requiring certain minimum credit quality is pledge as collateral (Henry Ckliu Banking Bunkum: a critique of the role of central banks around the world).

2.3. Entry and exit of financial institutions

The first, important role of NBR in the supervision of financial institutions is in its role to authorize the establishment of financial institutions and its withdrawal of approval (closure of a financial institution).

In the interest of transparency and disclosure, the NBR format of an application for authorization to establish a bank is prescribed by the law no 08/99 of 18/6/1999 relating to the regulations governing banks and other financial institutions. Many details are required in a specified form, and a complete and comprehensive application in terms of the bank law usually results only from a carefully planned and diligently executed project often involving consultants who specialize in this field.

In order to assist on the evaluation of such an application, the central bank may often request additional information from an applicant. The processing of an application entails not only an analysis of the application, including financial projections, investigations of the licit origin of capital contributed, this may be through consultations of other regulators and authorities abroad. The NBR pronounces itself on the application for approval and notifies its decision within a time period not exceeding six months.

2.4.1 Entry criteria and licensing policy

Since the banking system plays an important role in the Rwandan economy, there is a need to maintain the stability of the banking system. Consequently, an important authorization to establish a bank of financial institution has to meet the reasonable entry criteria and prudential standards set by the bank supervision department. The entry criteria are the following;

- Public interest considerations

The establishment of a bank should be in the public interest. Applicants therefore expected to make a worthwhile contribution to banking services and competition in Rwandan fane en and not merely add to the number of banks in the country. Although applicants do not have to offer full range of banking services they are expected to maintain a significant presence and to add some depth to the Rwandan banking sector.

- Ownership and control

A bank should pay appropriate regard to the interest of its depositors. Therefore no single shareholder or group) should be in a position to exercise undue in1uence over the policies or operations of a bank. The shareholding structure should not be a source of weakness and should minimize the risk of contagion from activities conducted by shareholders' other entities. Banking and non-banking activities should separate with appropriate divisions between them fit and proper Management.

Banks should be governed and managed only by directors and management with a proven ability and integrity to pursue the interests of shareholders without harming the interests of depositors. The proposed management and directors should have the relevant banking experience and skills to conduct the proposed business. For example, the senior management and the board should have sufficient specific experience in the management and the board should have sufficient specific experience in the management of the risks arising from banking activities.

- Corporate governance, audit and internal control

A bank applicant has to demonstrate the ability to maintain appropriate corporate governance, management, internal control and risk management systems, including internal audit and a compliance officer, in order to monitor and limit all the risk exposures of the bank as risk management procedures have to be consistent with the proposed strategy of the bank.
The proposed bank has to be capable of producing all required statutory and prudential information in an accurate and timely fashion as from the commencement of banking operations. The proposed bank's internal structure should be sound in terms of generally accepted management principles and proposed group structure should not be detrimental to the hank or to effective supervision of the bank. Amongst other issues, a foreign bank wishing to establish a locally incorporated bank or branch should be subject to acceptable supervisory arrangements in the country, i.e banks with foreign legal status which exercise their banking activities in Rwanda through a branch or an agency must be set up in the form of public companies is not required for the savings and credit cooperatives, which seek the central bank's approval.

Capital and Financial Condition

A bank should be established with financial strength in terms of adequate capital and sustainable profitability. An applicant should hold, as a minimum, a threshold amount capital. Initial capital should be from a known and legitimate source, and should not be borrowed money. Furthermore, a proposed bank should adhere to capital adequacy, cash reserves and liquidity ratio as well as all other prudential requirements.
Therefore, an applicant has to submit an acceptable business plan, incorporating realistic and sustainable projections of the scope, scale and specialization of operations cash flows and earnings for the first three years of the proposed bank's operations.

Of paramount importance, in reviewing an application is an assessment of whether the applicant demonstrates the commitment and ability to establish a bank and to ensure its viability against intense market competition.

2.4.2. Exit Policy and Process for managing distress in banks

The procedures for handling distress in banks differ significantly in many respects from those embodied in ordinary company and insolvency laws. The rationale for this differential treatment arises from three broad considerations relating to the nature and functions of banks.

*Firstly as custodians of the pupils savings and as a central element of a country's payment system, banks perform functions of a public nature that are, different from those of most other industries.

*Secondly, the intermediation function is necessary in order to facilitate saving's flows in the economy, but causes banks to take a risk posture that is systematically adverse in nature. In the intermediation process, banks acquire liquid and certain liabilities (deposit) and credit illiquid and uncertain assets (bank loans). The nature of banks' business contracts is, therefore, such as to create major systemic risks.

*Thirdly, the maintenance public confidence in the stability of banking system is the cornerstone of the process of financial intermediation. The emergence of liquidity or solvency problem in a particular hank can threaten confidence not only in that particular hank but also safely and stability of the system as a whole.

These conditions have led to the notion that banks deserve special protection in terms of crisis. It has to be stressed that the bank supervision department's policy is net armed at a zero failure of banks, instead, the objective is to resolve problems in banks effectively and to ensure that depositors with failing banks recover as much of their deposits as possible, in order to maintain the confidence of investors in the banking system. If a bank has to exist from the banking system, this has to occur with the minimum market disruption possible.

In essence, the policy is that a bank with temporary liquidity problems may be assisted provided it is solvent. An insolvent bank, however, cannot be allowed to continue as a bank, since its problems are very likely to become worse. Such a blank should exist from the system in an orderly, efficient manner, which minimizes losses to depositors and which does the least harm to confidence in the banking system. At the first sign of a bank potentially experiencing difficulty with complying with any aspect of the prescribed prudential requirements, corrective action is taken.

The act type of action differs from case to case and is not prescribed in any detail in the banks act. Action's may range from discussion of the area of concern at a routine or special prudential meeting with senior management to formal sanctions or times and increases in the capital requirement. In addition to these there are warning, disapproval, suspension of any assistance from the central bank, prohibition to carry out some activities or any limitations, in the activity of a bank or financial institutions, withdrawal of the quality of approved intermediary and the ultimate sanction would be withdraw of the banking license.

In order to establish beyond doubt whether a bank has liquidity or a solvency problem the department will call for a special investigation. If the banks liquidity shortage is of temporary nature and does not affect its solvency, the controller will advise the NBR that the bank has liquidity problems, but it is solvent.

If however, the bank is insolvent, then the internationally accepted course of action is clear no bank can be allowed to continue operations whole it is insolvent.

2.4. 3. Supervision

The Central bank ascertains that the bank and financial institutions respect regulatory and legal provisions, its own decisions as well as the rules of good professional behavior.

It watches over the establishment by banks and financial institutions of good conditions of management and internal control, assures itself about the equilibrium of their financial situation and the safeguard of creditors' and depositors' interest. To that effect, it exercises control on the basis of documents and onsite inspection both for banks and financial institutions as well as their branches.

Banks and financial institutions are bound to communicate to the central Bank every document, declaration, state of affairs in accordance with the formats and time limits it determines.

They must, furthermore provide it with all information, clarifications and justifications it may require.

If need be, and in the framework of its supervisory mission, the Central bank can get from any other person any document or inquiry it requires from him or her. Professional secrecy is not opposable to the Central Bank.

The Central Bank can dispatch inspectors, both to banks and financial institutions as well as to their branches, in order to carry out any verification and control and get information, clarifications and justifications deemed necessary to the fulfillment of their mission.

Banks and financial institutions, as well as their branches, are bound to submit for control of the central bank inspectors, their funds, bonds and other assets in their portfolio, as well as their books, minutes, receipts and other documents. Their inspectors can demand to be given the original or copy of any document for the

They have notably the obligation to;

a) Notify the central bank with all due diligence, any fact liable to endanger the interest of the bank or the financial institution, of its depositors or other creditors.
b) Report any irregularity or violation of regulatory or legal provisions.
c) Transmit to the central bank, at least three weeks before the meeting of the board of directors is held to summon the general Assembly of shareholders, their reports on the control they have carried out, these reports are made in the forms and in accordance with the modalities fixed by the Central Bank.

In case of non compliance with the provisions of article 39 and subject to other penal or disciplinary actions, the Bank can apply to the concerned auditor the following penalties:

a) warning:
b) prohibition to carry on the control operations of the bank or the financial institution:
c) erasure for a three-year term from the list of auditors approved by the Central bank;
d) Definite erasure.

Irregularities or infringements to this law, to regulations or decisions of the Central Bank and to the approval conditions stated against a bank or a financial institution will lead to the following disciplinary sanctions according to their seriousness:

a) warning;
b) disapproval;
c) suspension of any assistance from the Central Bank;
d) prohibition to carry out some activities or any other limitations in the activity of a bank or financial institution;
e) withdrawal of the quality of approved intermediary;
f) Withdrawal of approval.

Persons taking part in administration, direction or management of a bank or financial institution, who are guilty of irregularities or infringements to paragraph I above, are liable to the following penalties:

a) temporary suspension
b) Summary dismissal, with or without appointing a provisional administrator.

In the case of contestation provided for under paragraphs 1 and 2 above, the bank or financial institution or the concerned person can appeal to an ad hoc commission set up by the minister who has finance in his attribution.

The bank may when require by the situation of a given bank or a financial institution requires ask the board of directors, leaders, shareholders or any other owners of the bank or a financial institution to propose for approval, a restructuring plan particularly consisting of:

a) taking, with a determined period of time, all measures liable to a re—establish or reinforce its financial balance, notably by the constitution of funds and reserves, limitation of divided distribution, increase of capital in cash as well as by another financial support guarantee;
b) Proceeding to necessary reorganization with the effect of reinforcing its methods and its management instruments.

The financial system as a whole or some of its components may he bound to accept to provide additional advances to allow the bank or financial institution to cope with its commitments particularly towards its depositors.

2.4.4. Liquidation

Any bank or financial institution under liquidation must:

a) inscribe, after the company's name, the words "in liquidation" and not act as a bank or a financial institution except with a clear mention that it is under liquidation;
b) immediately stop its operations except those strictly necessary for its liquidation;
c) Put up in all its premises open to the public, a notice showing its being under liquidation either with the mention, of the Central Bank's authorization or the Court's judgment depending on the case.

During its liquidation, the bank or financial institution remains subject to the Central Bank's supervision. The latter receives copies of all documents and letters relating to its liquidation.

The legal status of the bank or financial institution under liquidation remains unaltered till its closure.

Every voluntary liquidation of a bank or financial institution is subject to the auditors certificate that the bank or financial institution is capable of primarily or entirely fulfilling all its obligations towards its depositors and other creditors and that the appointment of liquidators and the liquidation plan be approved by the central bank.

The letter shall respond within a two month period from the date the demand for authorization was received.

The bank or financial institution's liquidation plan drawn up by the liquidator includes the bank.

a) A detailed statement of assets and any other possibility of mobilizing resources;

b) a detailed statement of liabilities précising the amount of each dept. the seniority of the dept and whether the debt is contested or not:

c) Modalities and development of the liquidation process.

The liquidator publishes on weekly basis, within two consecutive weeks, in a widely read newspaper in Rwanda and in any other appropriate way, a notice indicating the places 'here the liquidation plan may be consulted.

Interested persons shall have a two-month period to make their observations or claims concerning the liquidation plan. These observations and claims are forwarded by the liquidator, together with his/her own comments; to any interested person through registered mail against acknowledgement receipt. After a further period of two months, the liquidator may carry out negotiations with depositors and any other creditors, individually or in committees, draw up an updated liquidation plan which becomes mandatory from the date of its final approval by the Central Bank.

In order to ensure that the bank or financial institution meets all its Commitments, the Bank may condition its approval to any complementary guarantees it deems necessary. It may as well require that provisions be made in order to settle any post- liquidation fees such as the external auditor's remuneration.

The final liquidation scheme shall be communicated to all interested parties.

During liquidation, the Central Bank's prior authorization is required for the following operations:

a) operations, other than collection of debts, involving any amount beyond the maximum fixed by the Central bank;
b) total or partial surrender of any credit or other movable assets;
c) settling any debt incurred before going into liquidation;
d) Dispossession or mortgaging of any building.

In every liquidation of a bank or financial institution the realization of all assets and any eventual guarantees, minus expenses linked to the liquidation shall be distributed to the various categories of creditors as follows:

a) guarantee holders up to the value of their :
b) depositors:
c) the stale;
d) Other certified creditors.

As assets and securities are being realized, and each time one category of creditor wholly disinterested, the balance shall be issued in pro rata to the next category of creditors.

However, as part of partial settlement of the claims of depositors, the bank may authorize the liquidation to distribute a given maximum amount uniformly to each of them.

On closing liquidation, funds and assets allocated to creditors but not yet collected shall be deposited by the liquidator with the Central Bank in the names of the concerned parties whose rights are prescribed in accordance with the Civil Law provisions.

An exception to this article's provisions is eventual compensations between debts and credits relating to one and same customer of the bank or financial institution. On the central bank's decision, the liquidator's mission may at any time be put an end and, in such a case, the bank or financial institution under voluntary liquidation must proceed to effect his replacement.

At the end of his mission of which duration shall not exceed one year, the liquidator is to submit his report to the central bank for approval. This report shall clearly show, notably, whether the concerned bank or financial institution has entirely settled its obligations.

Where assets and other means are inadequate to settle all the debts of the bank or financial institution, the Central Bank shall refer the matter to the Court which issues a ruling as in the ease of forced liquidation.

When necessary, the Central Bank can submit the liquidator's report and transactions relating to liquidation, for verification by an external auditor whose fees are charged on the reserve fund.

The bank approves the report by the liquidator; the latter obtains the quotas from the Central Bank which decides to close the liquidation. The liquidator hands over documents, books and registers of the bank or financial institution to the Central Bank which decides to close the liquidation.

The liquidator hands over documents, books and registers of the bank of financial institution when:

a) Implementation of the recovery mentioned in article 44 is unduly delayed or proves likely prejudice depositors or other creditors' interests:
b) upon proposal P' the provisional administrator;
c) When the hanks financial institutions situation so requires, for instance in case of default of payments with no possibility of recovery.

Subject to the provisions of this chapter, forced liquidation of a bank or financial institution is hound by the bankrupt law except where a preventive bankrupt agreement is concerned. The duties of a curator are then taken over by a liquidator appointed by the court.

The Central Bank's advice is required at all levels of this procedure and before any decision is taken.

When the court receives a request for forced liquidation, the Court clerk forwards this request through any appropriate means to shareholders, administrators, managers, depositors and other creditors of the bank of financial institution and any other interested person. The Court makes a ruling within a maximum period of two months from the date the request was deposited.

Within a period of two months from court ruling on forced liquidation of a bank or financial institution, the liquidator forwards to the Court the liquidation plan for approval.

Interested persons have a period of two months to make their observations and/or claims related to the liquidation plan. These observations and claims are forwarded by the liquidator together with his comments to every interested person through a registered mail against acknowledgement receipt. After a further period of two months, the liquidator draws up an updated liquidation plan which then becomes mandatory from the time of its final approval by the court.

The final liquidation plan is communicated to interested parties.

No operation can be carried out before the liquidation plan of the bank or the financial institution is endorsed by the Court.

In the course of liquidation, the order of the president of the Court is required for all operations mentioned.
The distribution of the proceeds of assets and of other eventual guarantees realized, less the expenses made in liquidation, is done in accordance with article 54.
However a part of partial settlement of the claims of depositors and on proposal by the Central Bank, the Court may liquidator to distribute a given maximum amount uniformly to each of them.
Within a period of three months, the authorization to the Central Bank to proceed to voluntary liquidation or the judgment ordering forced liquidation, the liquidator shall inform each renter of safe custody on the day and hour when the safe will be opened unless the renting have ceased. if the renter does not attend the opening, this cannot be done expect in the presence of the Public Prosecutor's representative; the inventory of the contents is made and jointly signed by the said representative and the liquidator. The contents are deposited with the Central Bank of behalf of the interested persons whose rights are prescribed in accordance with Civil Law provisions.
The Court may authorize the liquidator to affix seals on properties of administrators and managers whose responsibility seems to be involved.
It may also, under same conditions, authorize the liquidator to:
a. Seize and freeze or make restrictions on monies due to those persons as well as on movable or fixed assets belonging to them;
b. Make objections in such forms and effects as are allowed by the Civil Law to those same persons exercising their rights to dispose of any fixed assets.
When the liquidation of a bank of financial institution shows assets insufficiently, the Court can, on request of the liquidator or Public Prosecutor order that the bank's or financial institution's debts be settled. (Law no. 08/99 of 18/6/1999 relating to regulations governing banks and other financial institutions).

2. 5. BNR relations with banks and other financial institutions

The BNR keeps accounts of financial institutions operating in Rwanda and these institutions can withdraw in case they face problems in their day to day operations. Financial institutions get their resources from the deposits of customers, but on many occasions, these institutions run to BNR so as to finance certain operations.

This practice used to meet a lot of difficulties, but the situation was improved by creation of monetary market in September, 1997.

The National Bank of Rwanda in consultation with the Ministry of Justice helps financial institutions to deal with those who sign cheques without money on their accounts, and it facilitates the use of cheques and other means of payments.

BNR gives interdictions in the utilization of cheques and diffuses the list of all wrong payers in all bank establishments.

BNR basing on the data given by the financial institution makes monthly centralization of risks faced by financial institution in giving credits. The results will enable them to know the global indebtedness of their customers and producers and the BNR will base on this and advice on which sectors that should be financed (given loan)

2. 6. BNR relations with regional and international organizations

Article 59 of the law creating the bank, BNR has a role in relations with international financial organizations on the behalf of the government. BNR can represent the government in the international conferences. This is why BNR participates every year in the IMF and World Bank annual meetings. BNR also represents Rwanda in organizations for African development.

BNR also participates in negotiations for loans from external credits on the behalf of the government.

BNR has always played an active role in regional financial and economical bodies such as "Association of central African Banks and COMESA".

2. 7. Economic development

Economic development is the primary objective of the majority of the world's nations. This truth is accepted almost without controversy. To raise the income, well-being and economic capabilities of people everywhere is easily the most crucial social task facing us today. Every year, aid is disbursed, investments are undertaken, policies are framed, and elaborate plans are hatched so as achieve this goal or at least to step closer to it. How do we identify and keep track of the results of these efforts? What characteristics do we use to evaluate the degree of the "development" a country has undergone or how "developed" or "undeveloped" a country is at any point in time? In short, how do we measure development?

The issue is not easy to resolve. We all have intuitive notions of "development". When we speak of a developed country society, we picture in our minds a society in which people are fed and well clothed, possess access to a variety of commodities, have the luxury of some leisure and entertainment and live in a healthy environment. We think of a society free of violent discrimination, with tolerable levels of equality,

Where the sick proper medical care do not have to sleep on the sidewalks ,in short most of us would insist that a minimal requirement for a developed nation is that the physical quality of life be high and be so uniformly rather than being restricted to an incongruously affluent minority.

Off course, the notion of a good Society goes further. We might stress political rights and freedoms, intellectual and cultural development, stability of the family, a low crime rate and so on. However, a high and equal accessible level of material wellbeing is probably a prerequisite for most other kinds of advancement, quite apart from being a worthy goal in itself. Economics and policy makers therefore do well (and have enough to do!) by concentrating on this aspect alone.

It is of course, tempting to suggest that the state of material well-being of a nation is captured quite accurately in its per capita gross national product (GNP): the pre-head value of final goods and services produced by the people of a country over a given year. Indeed, since economic development at the national level was adopted as a conscious goal, there have been long phases to during which development performance was judged exclusively by a yardstick or per capita gross domestic product (GDP) growth. In the last few decades, this practice increasingly has come under fire from various quarters. The debate goes on, as the quotations at the beginning of this chapter suggest.

We must be careful here. No one in their right mind would ever suggest the economic development be identified, in a definitional sense, with the level of growth of per capita income. It is perhaps universally accepted that development is not just about income, although income (economic wealth, more generally) has a great deal to do with it. For instance, we noted previously that economic advancement should not be restricted to a small minority. This means, in particular, that development is also the removal of poverty and under nutrition: it is an increase in life expectancy; it is access to sanitation, clean drinking water, and health services; it is the reduction of infant mortality; it is increased access to knowledge and schooling, and literacy in particular (Debray-Ray, 1998:7)

CHAPTER THREE

METHODOLOGY

3.1 Research design

The research design used was the case study research design. The focus was on National Bank of Rwanda and this is because it was the most appropriate to collect data from involving both descriptive and explanatory techniques concerning the role of central bank in economic development of Rwanda.

This design was selected since it was economical in time and the funds that were available.

3.2 Population

The total population was 440 employees of central bank. BNR deals with financial services to both individuals and other banks. However, employees in various departments and sections were part and parcel of the population.

3.3 Sampling design and technique

A sample of employees was selected for study through purposive sampling technique which was considered to be most appropriate to obtain the right data. The researcher purposively selects the particular employees of the population from all departments of the Central bank. The bank has the following departments namely, finance, accounts, marketing, operations, customer relations, human resource, research and development and credit departments.

The researcher got names for each department by authorization from where the names were selected purposively from an alphabetically arranged list of each of the departments.

3.4 Sample size

The sample size was comprised of 50 respondents who are employees of central bank. Different gender and educational back ground was taken into consideration in order to come up with diversified and realistic research report.

3.5 Data processing and analysis

3.5.1 Data processing

Data processing was done using excel throughout the whole exercise the raw data collected from the field that has to be well arranged, sorted and summarized to check for inconsistencies so as to have an objective judgment. This was done using editing and tabulation techniques

Editing: This was done through completeness, accuracy, uniformity, legibility and comprehensiveness of data. A great effort was made by the researcher to reduce errors that could appear during the course of research process, in order to create a better ground for tabulation.

Tabulation: After editing all data was put into statistical table showing the number of occurrences of respondents in particular questions. Some tables may combine different questions depending on their relationship. The presented information was calculated in percentages to make it easy to read, interpret and understand the information gathered.

After tabulation, the data was summarized and interpreted in accordance with objectives of the study.

3.6 Limitations of the study

In the course of executing the study, the following problems were encountered:

The time of the completion of the dissertation set by the administration was too short. This has been a great challenge to the researcher during his research study.

The researcher was completed as the wish of researcher due to the limited financial means.

The researcher could take time to get needed information as the staff of BNR is busy almost all the time.

The research was carried out at the same time as the researcher was doing his usual work.

To overcome these limitations, the researcher used diplomatic language to explain to BNR staff how quick the information was needed.

About the limited financial means, the researcher asked for loans from banks and for the limited time the researcher could ask for some days off.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND

INTERPRETATION

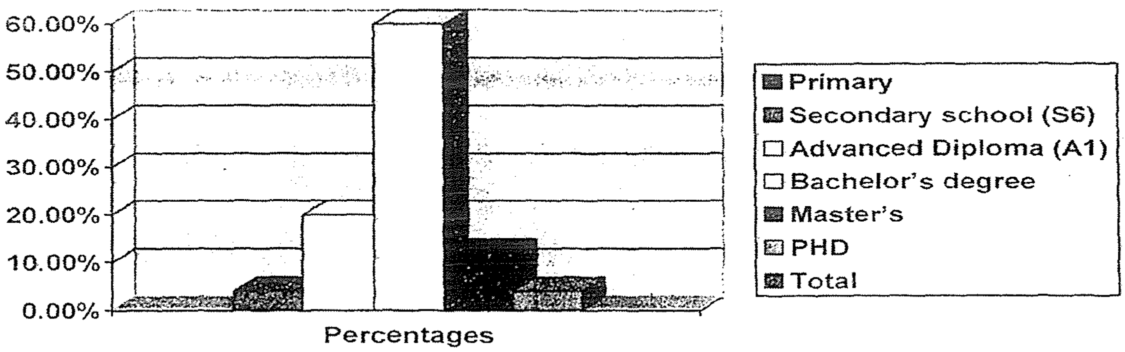
4.0 Introductions

This chapter explains how Data collected during the research carried out in central bank on the role of central bank in the economic development of Rwanda" were analysed and interpreted. During data collection, 50 respondents from different departments were selected to represent the Central bank, where questionnaires and interviews have been used to collect the needed information. Data were presented in statistical formats in figures and some theoretical part which explains the interview carried out with some respondents.

4.1. Education level of respondents

The education is a pillar of any development of any country; it plays an important role carrying out any activity in efficient and effective manner. This can be well explained in the figure below.

Figure 1: Educational level



Source: Primary data

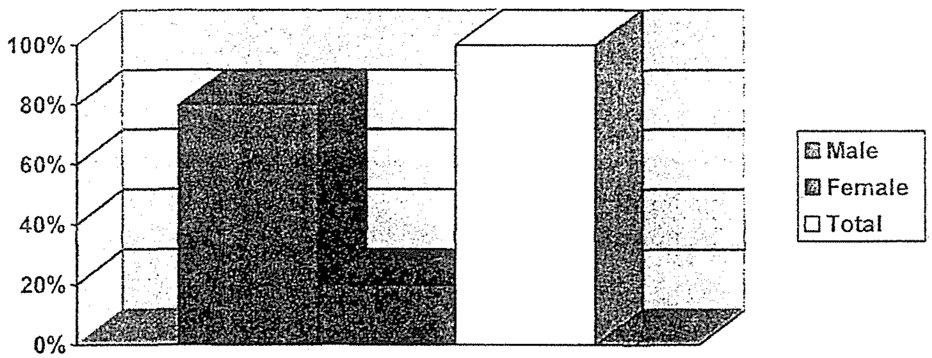
During the research, the researcher has found out that among the selected respondents 60% of respondents were bachelor's degree holders, 20% of them have advanced diploma (A1)12% were masters degree holders, finally 4% of them were present senior six certificates and 4% PHD holders, All the above used their education level to perform their assigned tasks.

4.2. Gender

Among the respondents selected, there were female and male joined together to perform central bank activities in order to promote the economic development of the country by using the acquired knowledge.

This can be shown in the figure 2

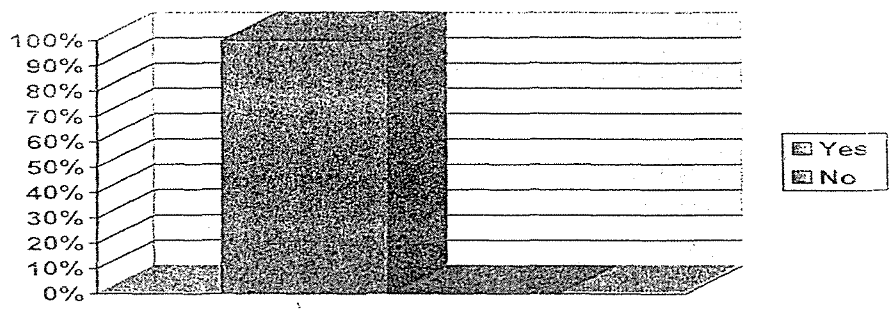
Figure 2: Distribution of respondents by gender



Source: Primary data

Among 50 respondents selected during the research study, the majority of them are male who occupied 80% of the selected respondents and 20% of them were female as shown in the table above. All respondents work together to perform the National bank activities and both of them delivered needed data to the researcher.

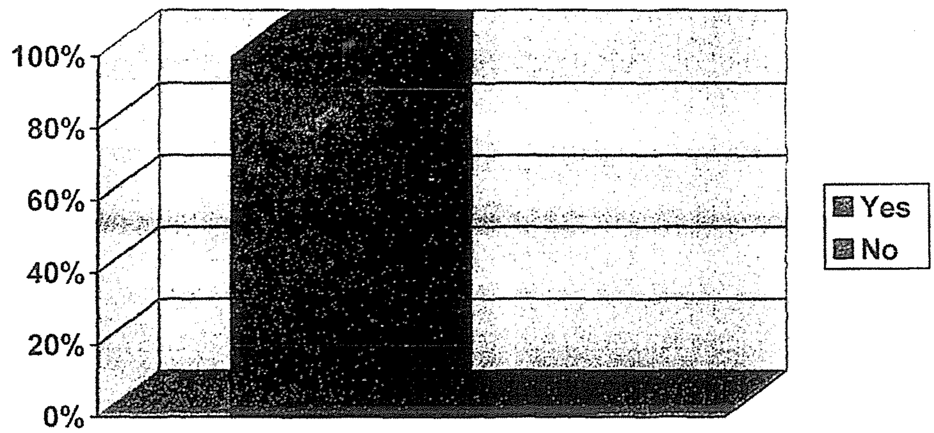
Figure 3: the role of the central bank in the financial institutions



Source: Primary data

All respondents in NBR have agreed that Central Bank has a role to play in financial institutions. The central bank plays a vital role in the activities of financial institutions by supervising, approving and ensuring the stability of financial institutions.

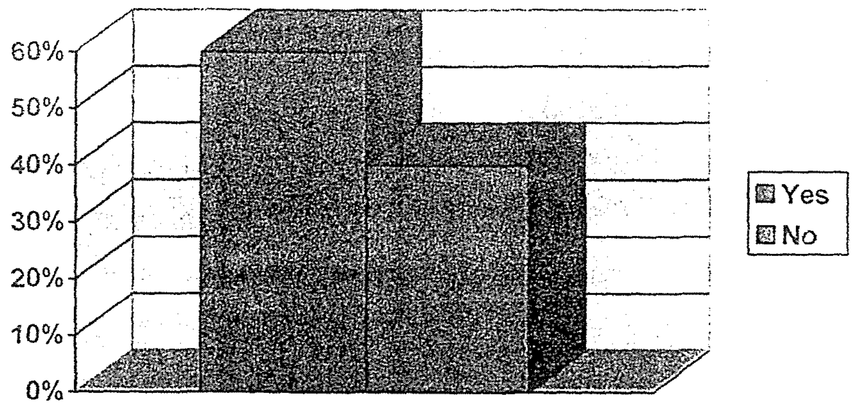
Figure 4: The role of Central Bank in the field of micro-finance



Source: Primary data

All respondents are aware that Central Bank intervenes in micro-finance institutions. In the field of micro-finance, BNR focused all its efforts on activities relating to applications for registration, inspection and sensitization of stakeholders in micro- finance to the importance of complying with regulations in general and the 06/2002 and 05/2003 directive in particular, in addition to compliance with the practice of sound and prudent management

from 2OO2-2006 a total of 220 micro-finance and " banques" popul aires were approved and till 31/12/2006. a sum of (66.7 billion were delivered to the population as credit, Figure 5: Required level of competence of Rwandan banks



Source: Primary data

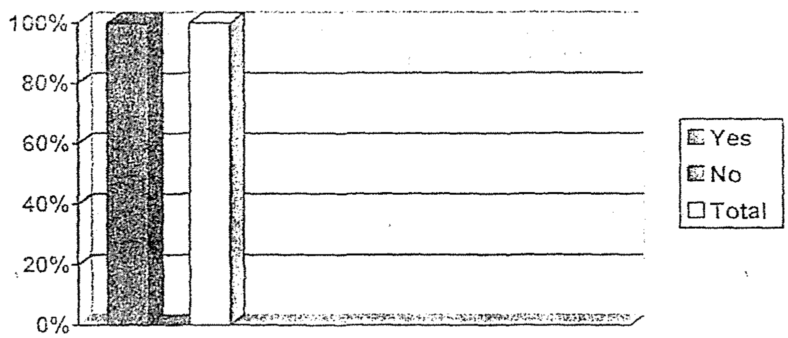
Only 60% of the respondents are informed about action plan set by BNR for a required competency. 40% of the respondents has no information about the plan.

4.4. Action plans set out by the NBR to reach a required level of competency of Rwandan banks

The 1997 Central Bank Law ensured the BNR is fully autonomous and supported its independence in terms of bank supervision. This has allowed BNR to introduce Bank Supervision programs that have improved capacity within the banking sector. In 1999, BNR also passed the New banking law that introduced the 25 principals of banking supervision that was prepared by the base committee. This means that the law of banking supervision in Rwanda today are broadly in compliance with international best practices.

From the financial indicators set out in action plans, the majority of the banks reached the required levels of competency very quickly

Figure 6 : central bank interventions with problems



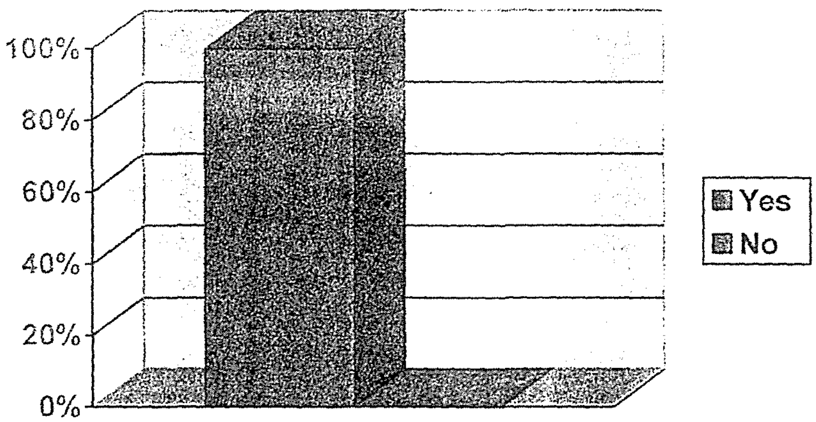
Source: Primary data

All respondents are aware that central bank intervened in two banks with problems (BCR & BACAR).

These banks (BCR & BACAR) were recapitalised by the shareholders and started to look for new strategic investors to secure the operations and management of the banks.

As strategic stakeholders, the government with advice of BNR after its inspections was heavily involved in restructuring the banks by firstly divesting their holdings and secondary by injecting a significant sum from the budget to bring the net-worth of the bank to zero. Following the implementation of these reforms, our banking system has come to the point where they have appropriate capital adequacy ratios comparable to that of developed nations. Also, all banks have been voluntary increasing their capital, building the capacity of banks in order to respond to the demands of the market.

Figure 7: the central bank in inflation fighting



Source: Primary data

All respondents are aware that Central Bank intervenes in fighting inflation but few are able to explain how.

To keep inflation low, BNR intervenes in the open market operations using government securities (and the Central Bank securities whenever necessary) to inject or absorb liquidity to or from the market.

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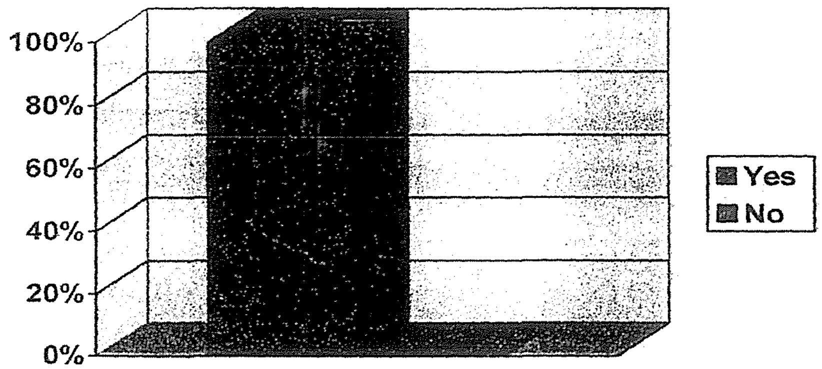
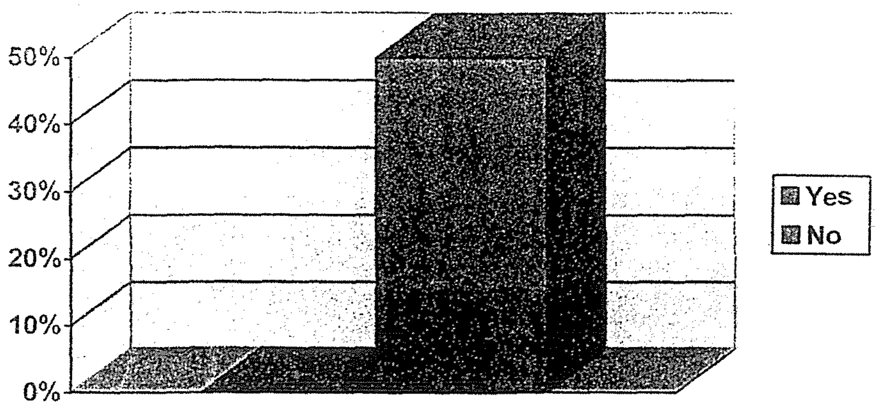


The BNR used its policy interest rates as instruments to influence these operations in order to maintain the expected target in the reserve money.

Figure 9: Efficiency of central bank in fighting inflation

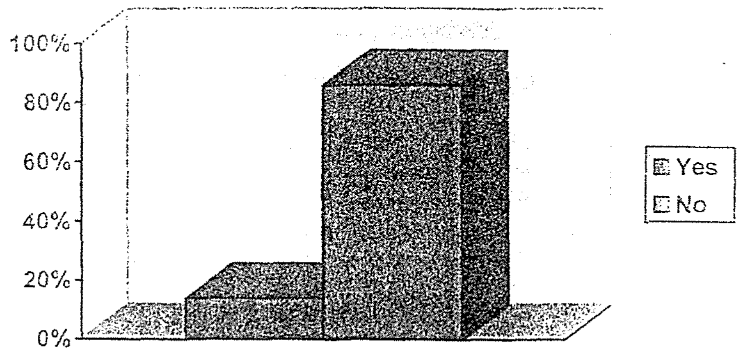


Source: Primary data

A 100% of the respondents agreed that BNR intervention is not sufficient enough to fight inflation but some were able to explain how.

At a certain level, this intervention is important but what we should know is that the influence of money supply on inflation rate is dominated by the influence of imports prices. Import prices are exogenous to the monetary policy in Rwanda.

Figure 10: Suggestion to the government to supplement BNR Interventions to reduce inflation rate?

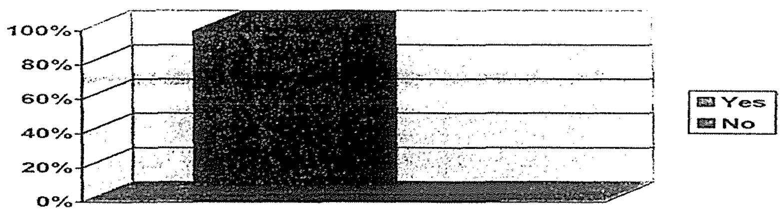


Source: Primary data

Only 14% of the respondents answered the questionnaire and 86% did not give any answer.

Low inflation can be achieved through increase in level of productivity in the country such that the demand for foreign goods is reduced.

Figure 11: The central bank intervention to regulate exchange rate

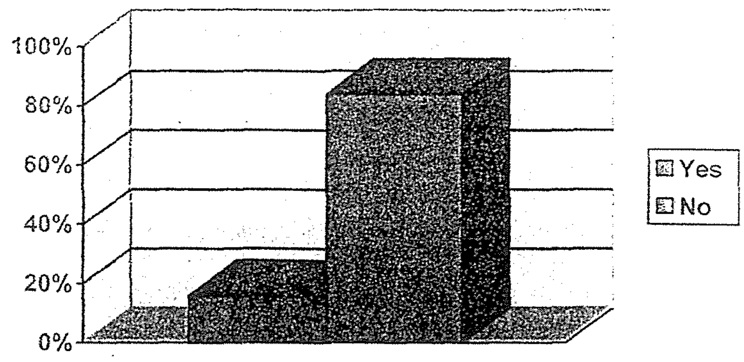


As regards exchange, BNR organize and manage the exchange markets by determining the conditions in which foreign currency is done as to preserve the external stability of Rwanda currency.

To regulate exchange rate at the market, BNR base on net foreign exchange holding a certain percentage (20%) of their stocks in foreign currency must be kept by commercial banks or the forex-buraue.

If the demand exceeds the 20% that should be kept as reserve BNR sells them its foreign currency to meet the demand and if banks or forex bureau get more than required reserves, BNR buys foreign currency from them. This is cry important because no one can raise price as he wants.

Figure 12: Central Bank facilities to private investors



Source: Primary data

16% of respondents had been able to respond to the questionnaire, 10% were able to explain how the Central Bank intervenes on the side of private investors, 6% could not give any explanations. In BNR, are managed a number of financial facilities and lines of credit as part of donor support to the government of Rwanda in fulfillment of its objectives of poverty reduction and strengthening the national economy.

The special funds to have been supported are:

1. Dairy Cattle Development Support Project Guarantee Fund (PADEBL)
2. Coffee Season Guarantee Fund
3. Housing Fund (HF)

PADEBL, a credit of 17000000 was given by financial institutions with a risk guarantee of 12,325,000 Rfws from BNR 2003 to finance 2 projects

In 2004, a credit of 3887,741, 150 RWFs financial institutions with a risk of support 266,833.849 Rwfs to finance projects Lines of credit with Rural Investment facilities.

- In 2002, a credit of 1.209.725,600 Rwfs with a risk guarantee of 419.012,462 Rwfs to finance 32 projects.

In 2003, a credit of 2,329,424,000 Rwfs with a risk-guarantee of 767, 513.885 Rwfs to finance 129 projects.

- in 2004, a credit of 4.292.009.303 Rwfs with a risk guarantee of 1.314.625,679 Rwfs to finance 423 projects,

- In 2005, a credit of 3,929,476,351 Rwf with a risk guarantee of 1,257.641.216 Rwsf to finance 1186 projects,

In 2006, credit of 4,387,439.139 RWFS. with a guarantee of 1.733,861.242 Rwfs to finance 2332 projects.

NB: If the investor succeeds to pay back the credit, the risk guarantee will benefit to him, otherwise it will be used to reduce the bank risk but till no the project has failed to pay back.

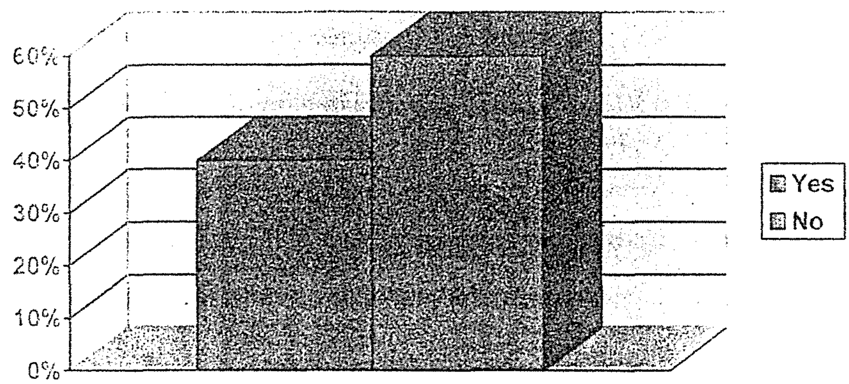
On Agriculture Guarantee Fund

In 2005, short term investments, 1,003,465,856 Rwsf of credit with a Risk Guarantee Fund of 300,633,633,356 Rwsf

In 2006, a credit of 2,184,255.115 Rwsf for short term with risk guarantee of 625,051,023 Rwsf

Long term investment 4,502,480,529 Rwsf credit with 2,477,516,438 Rwsf guarantee. These facilities have helped private investors to acquire credits from banks and the later have seen their risks reduced.

Figure:13 Participation to increase in flow of % foreign currency.



40% o4 respondents are aware of the Central bank's participation to increase in flow of foreign currency, 60% are not.

The fund resources come from the repayment of the Government consolidated dept with the National Bank of Rwanda. Eligible for financing from this fund are medium and long-term projects operating in agriculture and agro-business (including livestock) that participating banks consider bankable. The projects must show an easily financially viable.

However, in case funds are not sufficient to cover potential demands, priority is given to export oriented projects.

In order to extend this facility to many entrepreneurs, the maximum is fixed are Rwfs 200.000.000 for any eligible project. Nevertheless, the BNR may go against this rule, depending on the resources available and the nature of the project.

First come, first served procedures are followed while examining refinancing demands.

As of December 31st 2006, 24 projects had benefited from this facility to the tune of 2 276 612 000 Rwf.

Response to research objectives

(i) To the role played Central Bark in regulating and supervising financial institutions in the Rwandan economy.

In a period of four years. this is from 2002 to 2006, two hundred twenty micro- finances and Banques Populaires have been approved to work on the Rwandan territory and a sum of 66.7 billion Rwandan francs has been delivered to finance private projects and help the Rwandan population to fight poverty.

(ii) To analyze how Central Bank contributes in economic development through Bank Supervision and regulation.

In 2001/2, Central Bank has set up an action plan for Rwandan banks and has been able to identify two banks with structural problems and negative net-worth. These banks (BCR and BACAR). on the proposition of BNR, were re-capitalized by shareholders and Central Bank started to look for new strategic investors to secure the operations and management of the banks.

As a strategic stakeholder, the Government was heavily involved in restructuring the banks by firstly divesting their holdings and secondly by injecting a significant sum from the budget to bring the net-worth of the back to zero.

Following the implementation of these reforms, our banking system has come to the point where they have appropriate capital adequacy ratios comparable to that of developed nations (Governor's interviews to Fortune Magazine journalist in June
2006)

(iii) To assess Central Bank interventions to facilitate private investment.

BNR manages a number of financing facilities (three special funds and five lines of credit) as part of donor support to the Government of Rwanda, in fulfillment of its objectives of poverty reduction and strengthening the national economy.

Lines of credit

Currently, BNR manages the following five lines of credit:

. Rural sector support project (Rural Investment Facility-IDA 3483-RWF);

Preferential refinancing facility for Agricultural diversification

Cash and Export Crop Development Project

Private Sector Support Project (IDA 254 l-RW):

Agricultural and Rural Market Development Project (IDA 37O-R\).

Private Sector Support Project (IDA 2541-RW) and Rural and Agricultural Market Development Project (IDA 32706 RW) has been closed and NBR has been monitoring refunds from refinanced sub-projects.

A. RURAL INVESTMENT FACILITY (RIF)

According to the credit agreement signed between the Government of Rwanda and the International Development Association (IDA) on 25 April 2001, IDA granted to the Government a credit of 37,200,000 SDR (phase 1) for financing the Rural Sector Support Project (RSSP).

RSSP has several components, including the Rural Investment Facility (RIF), a line of credit managed by NBR with a budget of 5,620,000 SDR for phase I from 2001 to 2005.

RIF is used for partial refinancing of medium and long term credits granted by participating financial institutions (PFI) to rural projects.

- The mission of RIF is to contribute to investments of private operators who take the risk of investing in Agro-business activities and to reduce interest charges on bank loans for such activities.

Table 1: PROJECTS FINANCED FROM 2002 TO NOVEMBER 2006

PERIODS	NUMBER OF PROJECTS	AMOUNT REFINANCED IN US$
2002	32	869922,07$
2003	129	1416800,34$
2004	423	2293434,50$
2005	1187	2293434,50$
30 November 2006	2251	3060953,55$
Total	3681	9936937,46$ or 99,37%

Once financial institution has agreed to provide a loan to an eligible beneficially to finance an agribusiness undertaking the facility would provide up to 40% of the loan for a total loan amount not exceeding the equivalent of US$ 1000,000, and up to 20'o or USS I 00.000 Whichever is less. The RIF would have the following benefits to the Banks and FIS:

- ✓ It reduces its risk by covering a part of the loan
- ✓ Gives access to additional resources and
- ✓ Ensures repayment of part of its loan principal.

The benefits for the entrepreneurs include:

- ✓ facilitate of access to bank financing and
- ✓ Subsidization of their investment cost in the amount of the RIF portion of the loan and the saved interest payments overtime.

The advantage of this mechanism is that the commercial bank has to collect the pa)ment on the RIFs portion of the loan in the first place before it can be used to pay down its loan principal. This does not eliminate any moral hazard but also provides an incentive for the FIs to screen its clients and ensure repayment of the RFI portion

Similarly, the entrepreneurs can not enjoy the reduction in their loan principal unless they repay the RIF portion.

In order to get the RIF fund, the potential beneficiary would have to prepare a technical and financial study of his project, submit his request to financial institutions which has an agreement with BNR by clearing his own contribution and financial assistance requested to the bank. That financial request and the level of risks are evaluated by the bank and decide to give credit to the client after interest rate is or agreed by the two parties; then after BNR has to verify if interest rate is not exaggerated. Fl submit intervention request of RIF to the BNR for his client account. Recommendations to Central Bank on how to improve its contributions to the Economic Development of Rwanda are expressed after chapter V.

CHAPTER FIVE

SUMMA RY OF MAJOR FINDINGS

Along with this research, the researcher, found out that two hundred twenty microfinance's and Banques Populaires have been approved by the National bank of Rwanda to work on the Rwandan territory and a sum of 66.7 billion Rwandan francs has been delivered to finance private projects and help the Rwandan population to fight poverty

In 2001/2, Central Bank has set up an action plan for Rwandan banks and has been able to identify two banks with structural problems and negative net—worth. These banks (BCR and BACAR), on the proposition of BNR, were re-capitalised by shareholders and Central Bank started to look for new strategic investors to secure the operations and management of the banks.

As a strategic stakeholder, the Government was heavily involved in restructuring the banks by firstly divesting their holdings and secondly by injecting a significant sum from the budget to bring the net-worth of the banks to zero.

Following the implementation of these reforms, our banking system has come to the point where they have appropriate capital adequacy ratios comparable to that of developed nations (Governor's interviews to Fortune Magazine journalist in June
2006)

BNR also manages a number of financing facilities (three special funds and five lines of credit) as part of donor support to the Government of Rwanda, in fulfillment of its objectives of poverty reduction and strengthening the national economy.

5.0. CONCLUSION AND RECOMMENDATIONS

Conclusively, this dissertation carried out in BNR on "The role of Central Bank in the economic development of Rwanda showed a number of achievements by BNR in the fulfillment of its primary objective of safeguarding the domestic value of the Rwandese francs, by regulating the quantity of money in circulation, credit supplied to the economy, that is to say that they conduct monetary policy but also supervision of
Commercial banks which has insured efficient and sound financial system in the interest of depositors and the country as whole.

The Rwandese franc has maintained its' stability for the last years after 1994 genocide. This stability no nevertheless depended on the massive disbursement horn the donors. foreign dept cancelled by the world Bank hut also depends on its high skilled personnel and the later arc \sell managed which in turn leads to the good conditions of Working.

As of now. substantial liberalization has also been achieved across some sectors, the money and capital market arc liberalized, exchange and trade system were liberalized and price controls checked on imports and export commodities.

BNR has contributed to the finance of many projects in different parts of the country and this has helped the country to reduce a number of foreign currencies spent on importation.

BNR has faced some problems of a number of microfinance to close and this has reduced the confidence our people had in our banking system. It also faces some problems, of the county's banking system which has not yet achieved the international monetary standards; most of the banks are still providing only short term loans.

Despite the above problems, major programs have been achieved in restoring macroeconomic performance in broadly positive with a steady estimated real growth.

5.1 Recommendation

The country needs financial sector that is competitive flexible and responsive to the needs of developing economy and our banking system should generate confidence through complying to the international monetary standards especially this time where Rwanda has integrated herself in the East African Community in order to be more competitive.

BNR has to lake the first initiative and be more imaginative in terms of different instruments that can be developed to mobilize and channel the needed resources:

because most of the bank loans in Rwanda are short—term duration.

a. Papers events, stories of the day to day activities of NBR should be translated into English and be available on BNR website in both languages (English and French) to facilitate anybody to get the needed information easily as it has been observed that only little of its stories and activities are in English.

b. The central bank should strengthen its supervisory capacity. This should ensure increased confidence in the banking system, absence of which leads to fragility and sometimes unpleasant consequences for innocent members of the public.

c. The central bank should ensure that the audit of commercial banks actually represent the reality on ground consistent with strong and solvent banks. Where that is not the case, the BNR will have to ensure itself that restructuring plans formulated by respective management are realistic and achievable. It must in particular look critically into the problem of non-performing assets and capital adequacy ratios.

d. The central bank should impose the necessary discipline and if necessary sanctions on financial institutions and their managers who fail to observe the regulations in force or who fall short of the high standards expected.

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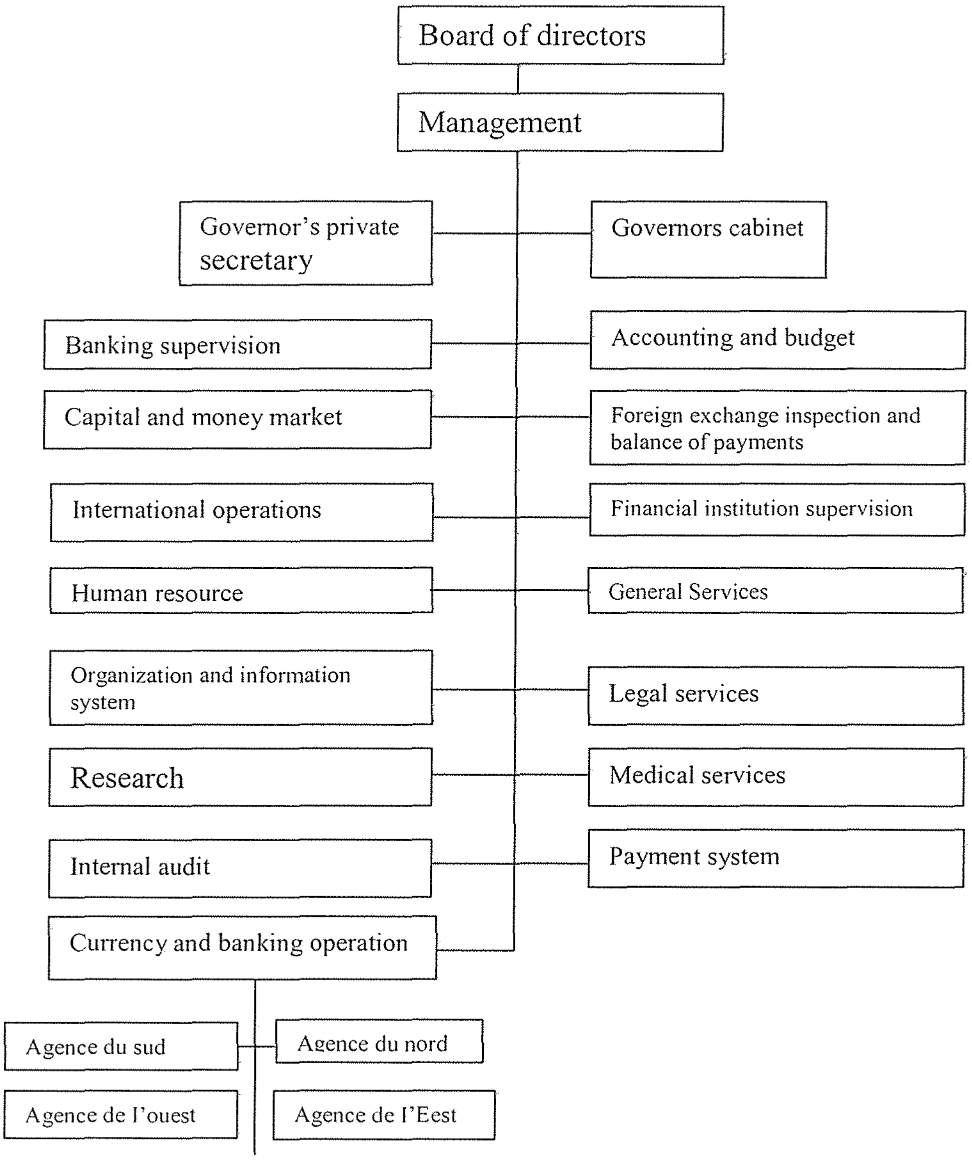
APPENDICES

ORGANISATION CHART



Questionnaire designed on BNR staff to assess their view on the role played by the national bank in economic development of Rwanda

Research questions

1. Gender

   Male female

2. Level of education

   a) S6 certificate
   b) Diploma
   c) Advanced diploma
   d) Bachelors degree
   e) Masters
   f) PHD

3. What is your professional qualification:..

4. Current post held..

5. Department ....

6. Area of specialization...

7. How long have been ‘n this organization

   - Less than 2 years ☐
   - 2 -5years ☐
   - years ☐
   - In years ☐

8. Status of employment

a) Permanent b Contract

c) Others (please specify)

I 1 In what age group do you belong to

Below 25 years ☐ 26 -35 years ☐

36-45 years ☐ver 4 years ☐

Section II

1. a) Have ',out ever attended any formal training on your job" Yes or No

h) If yes: how many times" ....

C) It yes: was it helpful to your department Explain ho)

d) Do your employer organization assist you to achieve the training? Yes or No

e) If yes how'

By allowing time off

By paying for the Training

By imitating training programmes

Others, specify

2. a) How can you classify the level of management

Good E Poor Average

g) Do your organization have strategic plans which guides you in your day to Day activities..._

c) If yes do von rely on the strategic plans . ...

d) What would be your recommendations to management in order to improve its services?

3 a) Are employees motivated Yes or No ....

h) If yes, how? ....

4. a) Are you satisfied with your job

b) If yes or No, why? ....

c Does your organization have a reward program that recognize performance?

5. a) Are you motivated by the salary and other benefits you are entitled to. according to your qualification and work? ....

h) If yes or why? ....

6 a) Do you think that the funds and assets of the firms are applied appropriately?

Yes/No ....Why ....

b) Do you think fraud corruption affect the success of the organization and how?

....

c) What is the main causes of frauds in the firm?...

d) Who do you think commits most of the fraud corruption?

Employees