"THE IMPACT OF WORKING CAPITAL MANAGEMENT ON THE PROFITABILITY OF SMALL AND MEDIUM SCALE ENTERPRISES IN RWANDA
CASE STUDY: ECO BANK NYAGATARE
REPUBLIC OF RWANDA

BY
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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF APPLIED ECONOMICS AND MANAGEMENT SCIENCES IN PARTIAL
FULFILMENT OF THE AWARD OF THE BACHELOR OF BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

MAY, 2013
DECLARATION

I, Aline Nyiramuhoza Mukiza, declare that this research report is my original work, as far as I am aware it has never been submitted to any university or other institution of higher learning for the award of a bachelor’s degree or any other academic award. I also certify that this research dissertation report was prepared by me specifically in partial fulfillment for the award of the degree of Bachelor of Business Administration at Kampala International University.

Signature

Date: 24th 06 2013
APPROVAL

I certify that the study was carried out by ALINE NYIRAMUHOZA MUKIZA under the title, "The impact of working capital management on the profitability of small and medium scale enterprises. Case Study- eco bank Nyagatare", state: Republic of Rwanda

Under my supervision and guidance this work is now ready for submission with my approval

Sign ...................................

Mr. Ruteganda Michael

Date 24/06/13
DEDICATION

I dedicate this book to my beloved family, my brothers and sisters and all my friends.
ACKNOWLEDGEMENTS

I gratefully acknowledge the assistance of my supervisor Mr. RUTEGANDA MICHAEL for his unconditional guidance throughout the preparation of this research work.

I cannot forget my family most especially my beloved mother Nyirabaruta Suzan Mukiza, my beloved father Rwema Gendarme and Nyiramitavu Rwema for their love and support and for enduring financial hardships during my period of study as the resources meant for them are utilized on my studies.

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Special thanks also goes to UGAFIN Bank and Mr. Johnson (UGAFINE Bank) that help me in the design of the data entry sheet for entering the data collected from the field.

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<tr>
<td>MAR</td>
<td>Microfinance Association of Rwanda</td>
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<td>RUFI</td>
<td>Rural Finance Initiative</td>
</tr>
<tr>
<td>BRAC</td>
<td>Building Resources around Communities</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
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<td>UNCDF</td>
<td>United Nations Capital Development Funds</td>
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<td>NBS</td>
<td>National Bureau of Statistics</td>
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<td>MAL</td>
<td>Micro Africa Limited</td>
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<td>EMI</td>
<td>Enterprise Microfinance Institution</td>
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<td>IDPs</td>
<td>Internally displaced persons</td>
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<td>CBOs</td>
<td>Community Based Organizations</td>
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<td>MDTF</td>
<td>Multi Donor Trust Fund</td>
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<td>EU</td>
<td>European Union</td>
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<td>USAID</td>
<td>United State Agency for International Development</td>
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<td>ROR</td>
<td>Republic of Rwanda</td>
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<tr>
<td>WCM</td>
<td>Working capital management</td>
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<tr>
<td>BCR</td>
<td>Banque Commerciale du Rwanda (Commercial Bank of Rwanda)</td>
</tr>
<tr>
<td>BERB</td>
<td>Banque d’Emission du Rwanda et du Burundi (Emission Bank of Rwanda and Burundi)</td>
</tr>
<tr>
<td>SMSEs</td>
<td>Small and Medium Scale and Enterprises</td>
</tr>
<tr>
<td>UNCDF</td>
<td>United Nations and Capital Development Fund</td>
</tr>
<tr>
<td>BBA</td>
<td>Bachelor of Business Administration</td>
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<tr>
<td>IWCM</td>
<td>Impact of Working Capital Management</td>
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<td>BNR</td>
<td>Banque Nationale du Rwanda (National Bank of Rwanda)</td>
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ABSTRACT

This study focused on the impact of working capital management in small and medium scale in Rwanda city, Nyagatare district. It was guided by the following research objectives: To find out the performance of WCM outreach to the poor and their financial sustainability, the challenges faced by WCM not to operate efficiently in Nyagatare district and finally to identify the various efforts made towards enhancing the performance of WCM in Rwanda. The research design used was descriptive and correlational research design. The findings of the study reveal the following: The performance of the impact of working capital management in small and medium scale show a rise in the period from 2010 to 2011 by 63%. However, it declined in 2011 by 27%. It also revealed that WCM outreach to the very poor particularly women is very high at the industry level. Women credit access share to men is above 86%. Outreach at the individual WCM level also revealed that the number of active clients is surging although a decline has been noted in one WCM (ECOBANK) in the year 2012. For instance, the number of active clients served by ECOBANK in the year 2010 to 2011 increased by 55%, for Finance Rwanda the number of active clients in the year 2011 to 2012 increased by 49% . However, in the year 2012 the number of active clients for ECOBANK declined by 55%. From financial sustainability angle, it finds that WCM at the industry level are operational sustainable measured by return on assets and return on equity and the industry profit performance is improving over time. The total net income at the industry level in the year 2010 to 2011 increased by 25.3% while in the year 2012 it declined by 34%. At the WCM individual level, the net income for Finance RWANDA and RUFI reveals a rise in their net incomes as follows: Finance Rwanda net income in the year 2010 to 2011 shows a rise of 24% and RUFI’s net income in the year 2010 to 2011 increased by 55%. For ECOBANK its net income reveals a continuous decline in the three years period as follows: Net income for ECOBANK in the year 2010 to 2011 decreased by 33% and in the year 2011 to 2012 it declined by 91%. Total assets for ECOBANK in the year 2010 to 2011 decreased by 22% and in the year 2011 to 2012 it decreased by 5.4%. For Finance Rwanda, total assets in the year 2010 to 2011 increased by 41% and in the year 2011 to 2012 its total assets increased by 54% and finally for RUFI , its total assets in the year 2010 to 2011 increased by 68%. Finally the findings of the study reveal that most of the funds for WCM in Kigali City come from donors. Therefore the researcher recommends the following: Strengthening of internal sources of finance, Diversification of products and services offered by WCM, Capacity building effort within the industry, Speeding up the passing out of microfinance policy and the microfinance Bill in the parliament., Establishment of permanent market places, Local MFI s should Coordinate and collaborate with international MFIs to get experiences from them and finally ECOBANK Nyagatare district should conduct a monitoring and evaluation review for its microfinance program as to why its outreach and financial performance is declining in Kigali.
CHAPTER ONE

1.0. Introduction.
This chapter presents the background of the study, the statement of the problem, purpose of the study, objectives of the study, research questions, and scope of the study and significance of the study. Management of current assets and liabilities is particularly important in the case of small and medium-sized companies (SME’s). Most of these companies’ assets are in the form of current assets. Also, current liabilities are one of their main sources of external finance in view of their difficulties in obtaining funding in the long-term capital markets and the financing constraints that they face. Small and medium-sized firms use vendor financing when they have run out of capital. Thus, efficient working capital management is particularly important for smaller companies.

1.1. Background of the Study
Ecobank in Rwanda has take place in 2007. Their mission and vision are the dual objective of Ecobank transactional incorporate (ETI) is to build a world-class pan African bank and to contribute the economic and financial integration and development of the African continent. This research intends to show the contribution of financial institution on the development of small and medium enterprises in Rwanda. The study is centered on development and it is therefore imperative to find out to what extent the banks have contributed to economic development of our country. Financial institutions are those institutions that provide financial services for their clients or members probably the most important financial services provided by financial institutions acting as financial intermediaries. In other words financial institutions are enterprises whose primary business and function is to collect money from the public and invest it in financial assets. In the most developing countries Rwanda incidence of poverty and the rate of population growth threaten the national economic stability and growth, also undermine its social and economic development.

For Rwanda in particular, the genocide coupled with slow economic growth already declined economy of the country resulting in poor standards of living, Unemployment and general increase of poverty. The lack of employment opportunities inadequate physical assets such as land and capital inadequate access to the means for supporting rural development in poor regions inadequate access to markets for goods and services that people can sell and low endowment of human capital remain the hindrance to the overall rural development.
Even if the government of Rwanda has made a strong and explicit political commitment to poverty reduction, poverty is not likely to be reduced in rural areas without a considerable improvement in private sector involvement to this objective. From there a vicious circle of poverty continues like that for years and years to result into chronic poverty in such a sector. Thus the need for cheaper loans from banks and other financial institutions and credit and saving schemes, donors and government to finance and invest in agriculture and small scale business so as to achieve the development of such backward sector.

Banking institutions in Rwanda as in the rest of the world have contributed a lot in the development of our country because they do support and encourage private sectors and poverty alleviation through mobilization of savings and financing economic activities such as agriculture, commerce, manufacturing, trade and providing capital loans, which enabled them to start small and medium income generating projects. It therefore well known that finance is the back born of all economic activities (Rose, kol.ori and Fraser, 1993:196).

The National bank of Rwanda (BNR) the central bank of Rwanda was founded in 1964 and quartered in Kigali, and also the Ecobank was founded in 2007 as pan African bank. It evolved as Banque d’Emission du Rwanda et du Burundi (BERD) issuing bank of Rwanda and Burundi (1960-1964), whereby BNR opened in 1964. Commercial Bank of Rwanda was founded in 1963 and it has head quarters in Kigali but it was privatized in 2004.Finance is central to development of any economy. The banking system dominates the financial sector of Rwanda and has been the major focus of reforms. One of major objectives of development policies is to build more efficient strong and deeper financial systems which can support the growth of private sector enterprises both in urban and rural areas in Rwanda by improving blameworthiness allocation and increasing antagonism resulting from the liberalized exit. Small and medium enterprise in Rwanda like in any other parts of the world plays a major important role in the growth of the nation and have been organized and registered under the sun shade of Rwanda private sector federation.

Because of the recent reforms in Rwanda of transference of power and resources, it is within this point of view that small and medium enterprises proved to be of great importance as they can be located in rural and semi-urban areas to use local resources and to provide for local demands in contrast to large enterprises centered in metropolitan areas only. High levels of
poverty combined with measure of economic growth have forced a great part of the developing world’s population into self-employment and familiar actions.

According to the World Bank, many of its customers place a high priority on developing their home-grown private sector to contribute in and guide future growth. A related and equally pressing matter is raising the ability of self-employed and rural poor to maintain the economic activities necessary to their continued existence (survival). EcoBank contribution to the development of our country and mainly to the development of small and medium enterprises is established in its credit allocation where by two departments in the director of credits were formed, the one charged with the credits of small enterprises called retail banking and another one charged with the credits of large enterprises called corporate banking. Bayer Jansen (2000).

1.2. Statement of the problem.

The number of microfinance institutions in Rwanda especially in Nyagatare district has been noted in progressive increase since the signing of the Comprehensive Peace Agreement (CPA) between the Government of Rwanda and the Rwandese People Liberation Army/Movement in 2009 that ended the two decades civil war. Despite a notable increase in the number of microfinance institutions in Rwanda, still half of the population (50.6%) in Nyagatare district lives below poverty line while in Cost 43.5% or 44% of the population also still live below poverty line “Poverty in Nyagatare district 2010” published by NBS. The financial sector is also still small and under developed despite high demand for financial services in a country with a population of 8,260,490. CES has a population of 1,103,557 while Kigali city has a population of 230,195 according to 2010 Census. According to First National Consultative Forum on working capital management held in Kigali on 12/15/2010 there are currently 5 SMSEs operating in Kigali city serving a total of 10,980 clients this is significantly a small proportion of the population in terms of outreach to the Working capital management to the poor and also most of these institutions depend heavily on donor funding.

Working capital management are primarily established to fill the gap in the financial services sector by providing funds to the poor and lower income group and thus alleviating poverty and enhance their business activity. The MFIs provide funds for start up business or for
working capital and also non-business activities such as funds for education and emergencies purpose. Several studies noted different causes for poverty in a country. Some argued that the cause of poverty in developing economies among other things is that the poor does not have access to credit for the purpose of working capital as well as investments for its small business (Akinsulire c – 2008).

Calculation of performance indicators is important for donors, practitioners and consultants to determine the efficiency, viability and outreach of microcredit programs. Performance indicators collect and restate financial data to provide useful information about the working capital management performance of the MFIs. According to United Nations Development Program (UNDP) and the United Nations Capital Development Fund (UNCDF), 2009 the performance of MFIs can be measured using five key indicators namely outreach, client poverty level, collection performance, financial sustainability and efficiency. In light of the above, the study attempts (is conducted) to investigate the performance of WCM in Rwanda City in terms of their outreach to the poor and financial sustainability. challenges faced by WCM not to operate efficiently, efforts made to enhance WCM performance and to suggest recommendations towards efficient operation of MFIs in Nyagatare district.

1.3. Purpose of the Study.
The purpose of the study was to investigate performance of the impact of working capital management in small and medium scale in Nyagatare district. Outreach to the poor and financial sustainability in Nyagatare district, Republic of Rwanda.

1.4. Objectives of the Study.
1. To assess the performance of SMEs outreach to the poor and their financial sustainability.
2. To investigate the challenges faced by SMEs.
3. To identify the various efforts made towards enhancing the performance of SMEs in Nyagatare district.
1.5. Research.

The study was guided by the following research questions:

1. What is the performance of WCM in terms of outreach to the poor and financial sustainability in Nyagatare district? What are the challenges faced by MFIs in Nyagatare district?
2. What are the challenges faced by SMEs?
3. What efforts have been made to enhance the performance of WCM in small and medium scale in Rwanda especially in Nyagatare district?

1.6. Scope of the Study

Geographical Scope

The study was carried out in Rwanda City covering three places namely: Nyagatare district, Rwamagana and Kabarore district. Where densely populated commercial centers such as customer market, Nyagatare market. These areas are also surrounded by other market like Nyagatare town market this is one of the biggest market in Nyagatare, about 3 kilometers of Nyagatare boarder (boarder of Rwanda and Uganda). These markets comprise of micro business enterprises, small scale and large scale business enterprises. The activities in these markets involve petty businesses, retail, wholesaling business and well as restaurant services.

Content’s Scope.

The study sought to investigate Outreach and Financial performance Working capital management in Nyagatare district.

Time Scope.

This study was carried out in the period from February 2013 to April 2013. The period from February 2013 to March 2013 was dedicated for Research Proposal writing. Submission of research proposal for approval was done in the month of March 2013. Data collection from the field was done at the end of the month of March. Data entry, data cleaning and report writing was done in the month of April 2013 and finally the month of May 2013 was for the submission of the report.
1.7. Justification and significance

It is a University policy for students to research on topics of relevance, to satisfy the requirements for the award of degrees in their respective faculties. In line with this policy, the researcher was obligated to conduct an academic study to meet the requirements for the award of a Bachelor of business administration (BBA).

Many arguments have been advanced that impact of working capital management in small and medium scale in Nyagatare district outreach to the poor and their sustainability dependent largely on funding from donors, federal governments, regional government or others. It is true that these institutions (banks) cannot sustain their activities if the support is gone. In a nut shell, the assessment of impact of working capital management (IWCM) performance particularly whether they are financially sustainable would be significant.

It is also anticipated that the findings of the study could be an input for policy making for improved operation of WCM so as to promote sustainable poverty reduction as most target provision of credit to the poor.

The study will also enrich the research’s knowledge in the field of financial sustainability of Working capital management in small and medium scale in Nyagatare district as well as expansion of outreach programs of WCM especially in a post war country like Nyagatare (Rwanda). This study will also provide a good knowledge about challenges faced by SMSEs to practitioners of working capital in a post war country like Rwanda especially in Nyagatare district.
CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction.
This chapter presents a comparison of views from different authors about impact of working capital management in small and medium scales in Nyagatare district. These views are compared on the findings and perceptions the different authors have revealed about impact of working capital management in small and medium scale in Rwanda especially in Nyagatare district. Regarding their outreach to the poor and financial sustainability, challenges faced, efforts made to enhance performance and possible strategies that could be employed to successfully enhance their performance.

2.1. Outreach to poor and financial sustainability of WCM in Nyagatare (Rwanda).
Many scholars have unveiled useful information on how to measure the performance of WCM in terms of outreach to the poor and financial sustainability.

Outreach simply means the number of clients served. But, Meyer (2009) noted that outreach is multidimensional concept. In order to measure outreach we need to look into different dimensions.

"The first is simply the number of person now served that were previously denied access to formal financial services. Usually these persons will be the poor because they cannot provide the collateral required for accessing formal loans, are perceived being risky to served, and impose high transaction costs on financial institutions. Women often face greater problems than men in accessing financial services so number of women served is often measured as another criterion...Although difficult to measure, depth of poverty is a concern because the poorest of the poor face the greatest access problem. Some measure of depth of outreach is needed to evaluate how well WCM reach the very poor. Finally, Meyer(2009) further noted that the variety of financial services provided is the criterion because it has been shown that the poor demand and their welfare will be improved if efficient and secure savings, insurance, remittance transfer and other services are provided in addition to the loans that are the predominant concern of policy makers".
Financial sustainability

The other indicator of Working capital management performance is its financial sustainability. Different literatures noted that Working capital management is one of the areas that we need to look at to assess the performance of Impact of working capital management. According to Meyer (2009), the poor need to have access to financial services on long term basis rather than just a onetime financial support. Short term loan would worsen the welfare of the poor (Afza.T. and M.Nazir.2009 Impact of aggressive working capital management policy on firm’s profitability.IUP J. applied finance 15: 19_30

He also stated that the financial sustainability in the WCM arises due to low repayment rate or UN materialization of funds promised by donors or governments. According to Meyer, there are two kind of sustainability that we could observe in assessing WCM performance: Operational self sustainability and financial self sustainability.

Operational self sustainability is when the operating income is sufficient enough to cover operation costs like salaries, supplies, loans losses and other administrative costs. Financial self sustainability (which he referred as high standard measure) is when Working capital management can cover the cost of funds and other forms of subsidies received when they are valued at market prices.

Meyer (2009) indicate , “” measuring financial sustainability requires that WCM maintain good financial accounts and follow recognized accounting practices that provide full transparency for income, expenses, loan recovery and potential losses””

There are also some dispute on the links between financial sustainability and outreach to the poor. according to some (afza.T. and M. nazir.2009), cited in Meyer(2002), outreach and financial sustainability are complementary this is because as the number of clients increase MFIs enjoys economies of scale and hence reduce costs which help them to financial sustainability. On the other hand, Adeniji, A.A,2008 (2008) argued that there is inverse relationship between outreach and financial sustainability. Here the argument is higher outreach means higher transaction cost in order to get information about creditworthiness of clients and hence make MFI financially unsustainable.
Also according to Khandker et al (1995), pointed out that loan repayment (measured by default rate) could be another indicator for financial sustainability of MFIs because, low default rate would help to realize future funding. Literatures of different authors have established that, the microfinance institutions in several developing economies are increasing from time to time. Various studies on different countries on the performance of MFIs confirm this (Adongo and Stork 2005, Zeller and Meyer 2002, Meyer 2002, Robert Cull et al 2007). For example, in Bangladesh a MFI called Grameen Bank at the end of 2000 reported 2.4 million members, where 95% of them are women, with rwf225 million outstanding loans. The various literatures also reveals that a good number of MFIs have registered impressive outreach in several developing economies including India, Cambodia and others (Meyer 2002).

Although, literatures of different authors have revealed a notable increase in the performance of MFIs in developing economies in terms of outreach to the poor and financial sustainability, for South Sudan case especially in Nyagatare, there are few studies undertaken in relation to performance of MFIs but the studies undertaken were not focused on outreach and financial sustainability performance of MFIs. In light of the above this study is undertaken in order to examine (investigate)MFIs on outreach to the poor and financial sustainability performance in Nyagatare whether they reflect the same situation as compared to other developing economies.

2.2. Challenges faced by Working capital management in Nyagatare district.

Credit policy of the firm: The credit policy of the firm affects the working capital by influencing the level of debtors. The credit terms to be granted to the customers may depend upon the norm of the industry to which the firm belongs. But a firm has the flexibility of shaping its credit policy within the constant of industry norms and practices.

Operating efficiency: This relates to the optimum utilization of resources at minimum costs. The firm will be effectively contributing in keeping the working capital investment at a lower level if it is efficient in controlling operating costs and utilizing current assets.
Price level changes: Price is relevant to purchase of material, packaging of finished goods and eventual sales. The increasing shifts in price level make functions of financial managers difficult. Management should anticipate the effects of price level changes on working capital requirements of the firm. Generally, rising price level will require a firm to maintain higher amount of working capital. Same levels of current assets will need increased investment when prices are increasing.

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Working capital: According to Pander (2003), working capital is required to finance the day-to-day activities of a firm and provide for growth. The need for working capital in a business organization cannot be overemphasized. There are hardly any business organizations that do not require any amount of working capital. However, firms differ in their requirement of working capital. When a company grows and its output increases, the volume of its working capital or net current assets will also increase. The volume of net current assets will also depend on the policies adopted by a company for managing individual current assets. A company with no stock, no debtors and no creditors will have little or no investment in working capital which will result in little or no profit.

Where a firm is experiencing growth or significant seasonal fluctuations, working capital must be available to finance the necessary inventory and bills payable. A high level of current assets, especially cash strengthens the firms’ liquidity position and reduces risk. The liquidity will facilitate the following:

Purchase of raw materials
Payment of expenses incurred

Payment of dividend to existing shareholders

Payment of tax to the government for the provision of social amenities

Payment for fixed assets, etc.

Also according to a study conducted on Expanding the provision and impact of Working capital management in Nyagatare district by Melody Atil (April 2009) established that the WCM in Nyagatare district face high demand both for the products they currently offer and the products they could potentially provide. However, a number of issues have limited the present MFIs ability to expand and meet demand due to the following pressing challenges such as scarcity of skilled labor and low staff retention, reoccurring market demolitions, access to funds, lack of regulatory framework, need for technical support, lack of knowledge of government institutions, limited diversification across sectors and productive activities, lack of security and transport facilities in non urban areas, high cost of operation to mention but a few.

Although the above authors have managed to establish (identify) the main challenges faced by microfinance institutions, their findings were not specific to Juba City. Therefore this study is undertaken to examine the challenges faced by microfinance institutions in Juba city.

2.3. Efforts made to enhance performance of microfinance institutions in Nyagatare District

According to a study conducted on expanding the provision and impact of microfinance in Southern Sudan by Melody Atil (2009), a number of organizations such as CBOS, MDTF, GOR, USAID, UNDP, UNCDF, DED, EU, GTZ to mention but a few have come up to support the working capital management in Nyagatare district in order to enhance their performance. These organizations play different roles in the enhancement of the performance of the MFIs in South Sudan for example CBOS, MDTF and GOR provide loans and technical
assistance grants to start up MFIs, MFI's scaling towards sustainability and well established and sustainable MFIs for example $6.4 million available in 2009/10 (additional $1 million already allocated). The loan terms were three years loans with a 1-2 grace period. UNCDF has also allocated a sum of $4.5 million and further $3.5 possibly available. The loan term for this is 5 years including a grace 2 years period. Organizations such as USAID, SSMDF, IFC, Oxfam Novib/Triple Jump, and UNCDF are working towards raising the capacity and sustainability of local microfinance institutions in South Sudan.

According to Joanna Ledgerwood et al (2006), the Impact of working capital management were enhanced by creating an enabling policy framework for financial sector development, stakeholder consultation and collaboration, donor support, coordination and collaboration. Although, the above authors have given an account on the efforts made to enhance the Impact of working capital management in small and medium scale especially in Nyagatare district, the accounts given are general and have not specified the specific efforts made to enhance the Impact of working capital management in Nyagatare district. Based on the above it is therefore imperative for this study to be undertaken to establish the exact efforts made to enhance the Impact of working capital management in Nyagatare district.

2.4. Strategies to improve the performance of Working capital management in Nyagatare district.

According to Lidgerwood et al (2006), the key success factor in the performance of microfinance institutions in Uganda has basically been due to an enabling policy framework for financial sector development which is conducive for sustainable growth of the microfinance industry through divesture from direct credit delivery through government programs, capacity building effort within the industry, donor support, coordination and collaboration, clear mandate for BO in formulating the draft policy and MDI Bill and also role of politics. Local MFIs made strong international alliances with international microfinance organizations. The institutions provided the local MFIs with critical inputs like capacity building, human resources and exposure to international experiences to their affiliated national MFIs.
CHAPTER THREE
METHODOLOGY

3.1. Introduction
This chapter is centered on information about the research design, area of the study, population and sampling techniques, sample size, variables and indicators, data collection methods and anticipated methodological constraints.

3.2. Research Design.
The research design used was descriptive and correlative. It was descriptive because it explained the impact of working capital management in small and medium scales and their financial performance. It was correlative because it gives relationship between working capital management and financial performance of microfinance institutions.

3.3. Geographical Scope
The study was carried out in Nyagatare district covering three places namely: Nyagatere, Rwamagana and Kabarore where densely populated commercial centers such as Karangazi, Ryabega, Rukomo, Nyagatare market are located. These areas are also surrounded by other banks and markets. Rukoma market is one of the biggest markets in Nyagatare district, about 15 kilometers of Nyagatare town. These markets comprises of both small scale business enterprises and large scale business enterprises. The activities in these markets involve petty businesses, retail, wholesaling business and well as restaurant services.

3.4. Study Population
The population of the study was comprised of fifty one (51) people categorized as follows: Clients of MFIs, junior and senior staff of MFIs, representative of NGOs working in microfinance programs, senior officials of ministry of commerce and industry in the government of South Sudan.
3.5. Sample Size

3.3.1 Population
Richard Grinnell and Margaret Williams (1990:118) define a population as the totality personal or object a study is concerned. Since the study was concerned with the development of small and medium enterprises, Ecobank Nyagatare has 1,100 registered small and medium enterprises and this constitutes to the population understudy. But out of this population, 970 enterprises are active and 130 enterprises are dormant.

3.3.2 Sample Size
Richard Grinnell and Margaret Williams (1990:118) define a population as the totality personal or object a study is concerned. Since the study was concerned with the development of small and medium enterprises, Ecobank has 1,100 registered small and medium enterprises and this constitutes to the population understudy. But out of this population, 970 enterprises are active and 130 enterprises are dormant.

3.4. Sources Of Data/ Instruments Used In Data Collection
In collection of both primary and secondary data, various methods were used during the primary data collection, questionnaires and interviews were use in collection of both primary and secondary data, various methods were used during the primary data collection. While secondary data were collected by analyzing the documentation of Ecobank Nyagatare and other documentary evidence and published reports of other companies.

3.4.1 Primary data
Churchill,(1992:182) was defines primary data is the information collected specifically for the purpose of the investigation at hand.

3.4.2. Secondary data
Secondary data on the other hand is the information not the immediate study at hand, but for some other purposes (Churchill, 1992:182), the sources of secondary data includes:-

- Library books
- Articles
- Published annual reports
- Official gazettes and other research studies that have been done before.
3.4.3. Questionnaire

Bailey (1978:93), by definition of questionnaire, as a list of questions generally mailed or handed to the respondent and failed in by him/her with no help from the interviewer. The questionnaire was containing close-ended questions. With close-ended questions, respondents were given different alternative to choose from.

The advantage for close-ended questions is that, the answers are much easier to code and analyze and this saves time, also the respondent is often clear about the meaning of the question.

Bailey (1978:93), an interview is an instrument that is not given directly to the respondent. but is filled by an interviewer who reads questions to the respondent.

3.4.5. Documentation

Bailey (1978:266) defines documentary study as a careful reading, understanding and analysis of written documents for some purpose.

Researcher only managed to reach 51 respondents categorized as follows: 40 people operating micro businesses and 11 key informant respondents, thus making an actual sample size of 51 respondents. At the time of the study SUMI which was the fourth microfinance institution selected for the study was found winding up (closing down) its operations in Nyagatare (Rwanda) due to financial crisis hence no data was obtained from them.

3.6. Data collection methods

3.6.1. Questionnaire.

Questionnaires were administered to the respondents by the enumerators. These respondents include staff working in MFIs, NGOs representatives and government officials. The enumerators were trained before they were sent to the field to collect the data.

3.6.2. Documentary review

In this study, documents such as journals, reports and other research work were used in backing up the primary data that were collected from the field.
3.7. Interviews and observation
The researcher used face to face interviews concurrently with observation while collecting the data. Unstructured interviews were used for the selected respondents.

3.8. Data analysis
The raw data collected were first entered using CSPro and then the data entered were then transferred into SPSS and MS Excel for analysis. The data entered were then cleaned to check on errors and data coding was also involved particularly for the open ended questions. The analysis involved the use of Simple correlation and descriptive analysis techniques using frequency tables, graphs, pie charts, and percentages etc which were generated through the use of SPR and MS Excel.

The methodological constraints that the researcher faced during the data collection were finance, logistics, language barrier because the researcher has little command of classical language to mention but a few.
Respondent’s fatigue. Many research studies have been carried out in Nyagatare district hence most of the respondent were reluctant to be interviewed because of fatigue. The key respondents were not easily accessible due to bureaucratic tendencies hence this led to delay in the data collection.
CHAPTER FOUR

PRESENTATION AND ANALYSIS OF THE FINDINGS

4.0 INTRODUCTION

This chapter attempts to make analysis and interpretation of primary data collected from both EcoBank staff and members of small and medium enterprises/ its clients on the grounds for assessing whether banks do contribute to the development of small and medium enterprises.

Table 4.1: Respondents classification by sex

<table>
<thead>
<tr>
<th>Response</th>
<th>No of respondents</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>84</td>
<td>76%</td>
</tr>
<tr>
<td>Female</td>
<td>26</td>
<td>24%</td>
</tr>
<tr>
<td>Total</td>
<td>110</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: primary data.

Gender is considered in this research because different categories contributed differently to the research the number of male is 84 making 76% of the population samples while female are totaling to 26 making 24% of the sample population. Hence making the research to have different opinions from different sexes which intend to help the research to have a standing conclusion about the topic.

Figure 4.1 Responses on classification according to age

Source: primary data.
The table and graph above shows that the largest proportion lies in the middle age (30-49) category, constituting 71.8% of the total respondents. The young age group consisting 19% under (20-29) with the old age (50%) +9%.

Figure 4.2 Classification of respondents according to education level

![Figure 4.2](image)

Source: primary data.

According to the figure above, most of the respondents attained diplomas of educations constituting to 44% of to total number of respondents, while 29% attained degree, 16% attained masters, 11% attained above masters. From the information above, one can conclude that the level of education is still low and this implies that few people can start up their own projects, as it requires some level of education to make a project plan or proposal.

Table 4.2 Post of the respondent in the enterprises

<table>
<thead>
<tr>
<th>Posts / Position</th>
<th>Number of respondents</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director general</td>
<td>8</td>
<td>7%</td>
</tr>
<tr>
<td>Director</td>
<td>18</td>
<td>16%</td>
</tr>
<tr>
<td>Head of the department</td>
<td>48</td>
<td>44%</td>
</tr>
<tr>
<td>Others</td>
<td>36</td>
<td>33%</td>
</tr>
<tr>
<td>Total</td>
<td>110</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: primary data
The table above shows that, the highest number of respondents constituting to 44% were head of department, 33% were others, 16% directors, while 7% were director general. This implies that, the information proved could be based on since most of the respondents were directors of the enterprises who are knowledgeable enough and understand what they are doing.

Figure 4.3 respondents' responses on the length of time of the enterprise in operation

![Graph showing enterprise operation lengths](image)

Source: primary data

The chart above shows that the highest percentage of enterprises constituting to 55% has been in operation for the period of 4 to 6 years. This reveals that, within these years, there has been stability of people and goods and contributing to atmosphere for investors to undertake new ventures.

The following research questions are used to collect primary data

1. What are the services offered by Ecobank and how do they facilitate the creation of SMEs.
2. What is the level of development of small and medium enterprises in Rwanda?
3. What are obstacles for the development of small and medium enterprises in Rwanda? Especially in Nyagatare district

19
Figure 4.4 Responses for the services provided by Ecobank

![Pie Chart showing responses for services provided by Ecobank]

Source: primary data

The chart above reveals that, Ecobank Nyagatare offers wide range of services where the highest number of enterprises constituting to 57% had their services from bank as credit and savings. 20% of advice, and 14% received the payment services, 8% for insurance to poor and their micro enterprises and 1% received for money transfer. This implies that banks provide many services to their clients but more importantly is the provision of credit and saving.

Figure 4.5 Respondents view on the types of bank account maintained

![Bar Chart showing types of bank accounts]

Source: primary data

<table>
<thead>
<tr>
<th>Type of Account</th>
<th>Percentage</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings account</td>
<td>54</td>
<td>59</td>
</tr>
<tr>
<td>Current account</td>
<td>36</td>
<td>40</td>
</tr>
<tr>
<td>Fixed account</td>
<td>10</td>
<td>11</td>
</tr>
</tbody>
</table>
The table and figure above indicate that, majority of the enterprises constituting to 54% have savings account 36% have current accounts, 10% have fixed accounts. This implied that most of the enterprises are commercial oriented which prefer to use their money on daily business transactions rather that keeping it in the banks for a long period while earning little interests on their deposit.

Figure 4.6 Responses upon the receipt of loans

Source: primary data

This was in line of understanding the number of enterprises that got loans from Ecobank. The graph above shows that, the highest number of the enterprises constituting to 76% received loans from Ecobank. This indicates that Rwandese has known the uses of banks, and banks have their functions.

Figure 4.7 A Response to answer what the received loan was used for.

Source: primary data
From the analysis of the data provided by respondents in the table and chart above indicates that, majority of the enterprises constituting to 65% asked loans for expanding the existing medium businesses. This implies that Rwandan entrepreneurs are in line with vision 2020, which in one of its aspirations is based on the development of entrepreneurship and private sector based on abroad based business class and entrepreneurs imbued with a spirit of competitiveness (minicofin, 2000:5)

**Figure 4.8 Respondents view about the annual turnover of the enterprises.**

From The graph and figure above shows that, 22%of the enterprises (respondents) have the annual turnover between 10000-50000, 58% is between51000-100000, 11% is between 101000-200000, while the lowest number of enterprises constituting to 9% have the annual turnover between 201000-500000 millions. From the information above, as the researcher tried to analyses more clients are in the range of 51000-100000 with percentage of 58% this explains that people who are in this range run small sized business. He concluded that, there are many small business enterprises operating in Rwanda that medium sized ones
Figure 4.9 Responses on whether banks are the engine for the development of SMEs

| Source: primary data |

From the chart above shows that, majority of the enterprises sampled representing 94% agreed that, banks are the engine for the development of SMEs, while 6% are disagreed. From the information above, the researcher concluded that, banks play a significant role for the development of SMEs.

Figure 4.10. Responses as to whether bank’s support to SMEs has created more employees.

| Source: primary data |

The graph above shows that, 61% of the respondents strongly agreed, 36% agreed, and neither of the respondents disagreed 2% nor strongly disagreed 1%. From the information above, it is
observed that, 97% of the respondents agreed in favor of the statement, and this bring to the conclusion that, the support of banks to SMEs has a direct relationship with the creation of employment opportunities.

2. What is the level of development of SMEs in Rwanda?

Figure 4.11. Response by the level of economic Development of SMEs

<table>
<thead>
<tr>
<th>Expanding</th>
<th>Stable</th>
<th>Decreasing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series1</td>
<td>70</td>
<td>29</td>
</tr>
<tr>
<td>Series2</td>
<td>64</td>
<td>26</td>
</tr>
</tbody>
</table>

Source: Primary data

The figure and table above shows that, majority of the enterprises representing 64% had their businesses are expanding, 26% stable, and 10% decreasing. This implies that, banks’ effort for the development of SMEs is commendable.

Figure 4.12 Respondents view on improvement and development in business transactions

Source: primary data
The chart above indicates that, 94% of the respondents agreed that, there was a considerable improvement and development in their business transactions after joining Ecobank. That the role of financial institution in the development of SMEs is of a great importance as this leads to their expansion resulting.

1. into more revenues,

2. more employment opportunities,

3. More governments taxes, less dependency to foreign donors hence development in general.

Table: 4.3 Responses for the promotion of SMEs

<table>
<thead>
<tr>
<th>Response</th>
<th>Number of respondent</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Helps in better income distribution</td>
<td>33</td>
<td>30</td>
</tr>
<tr>
<td>2. Enhances employment opportunities</td>
<td>57</td>
<td>52</td>
</tr>
<tr>
<td>3. Decentralization of local resources</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>110</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: primary data

The table above shows that, 30% of respondents urged that, SMEs should be promoted because they help in better income distribution in the society. 52% those SMEs should be promoted for the purpose of decentralization of local resources and catering for local. From the information above, SMEs should be promoted mostly on the grounds of enhancing employment opportunities, but also decentralization of local resources and catering for local demands and income distribution were considered as of significant as there was no big difference between them.
The above figure shows that, 98% of the enterprises are salient clients of Ecobank and 2% are disagreeing. This implies that, a customer is a king; therefore, both banks and clients must work hand in hand to fulfill and attain their targeted goals.

The graph and table above shows that, 95% of respondents agreed that, the existence and profitability of commercial banks are determined by SMEs. This is true because, banks exist
in order to assist and give services to their clients, so without those clients, banks also cannot operate. Banks also make profits on the difference between the interest rate charged on loans and the interest rate paid on deposits (Bayern. Jansen 2000:174), and whether loans or deposits, are taken and brought in respectively by clients.

3. What are the obstacles /constraints for the development of small and medium enterprises in Rwanda?

Table 4.4. Responses about the Constraints facing small and medium enterprises

<table>
<thead>
<tr>
<th>Responses</th>
<th>No of respondents</th>
<th>Percentages %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance access</td>
<td>49</td>
<td>45%</td>
</tr>
<tr>
<td>High government taxes</td>
<td>42</td>
<td>38%</td>
</tr>
<tr>
<td>Competition</td>
<td>5</td>
<td>5%</td>
</tr>
<tr>
<td>Low demand</td>
<td>6</td>
<td>5%</td>
</tr>
<tr>
<td>Lack of trained staff</td>
<td>8</td>
<td>7%</td>
</tr>
<tr>
<td>Total</td>
<td>110</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: primary data

The table above shows that, access to finance and high government taxes have the highest percentage of the constraints facing SMEs financing access representing 45%, high government taxes has 38% while low demand representing 5%, and competition 5% and lack of trained staff 7%. Implies that, all of them are constraints facing SMEs, but more importantly are access to finance and high government’s taxes.
Source: primary data

From the table above 65% of respondents said that they know to prepare a business plan. Whereby the knowledge of prepare a business plan was provided by some project organizations like spark umutara polytechnic project, heifer international project etc, the remaining 35% they do not know to prepare it, this plan is one of the requirements if one wants a loan. Because it gives the picture of cash flow and how the installment payment will be done.

Source: primary data
The chart above, its shows that, the biggest number of enterprises tries to overcome the problems facing their enterprises by increasing sources of finance as this is represented by 36%, followed by improving their products/services represented bandy 22%.

This implies that, Rwanda have adopted the culture of hard working, like working for long hours and better ways of getting finance and also have realized that, improving their product/services is the best way of attracting more customers and this leads to high supplies hence development.

4.2.1. Ecobank's Profile

Ecobank is a profit making organization categorized in the Rwandan commercial banking institution set up in accordance with the law of republic of Rwanda with a legal status Limited (ltd). The microfinance sector in Rwanda is dominated by the network of Ecobank especially in terms of a number of recipients of the financial services and volume of activities. Some of them are:

1. To offer reliable and affordable deposit products
2. To stimulate the creation of SMEs by democratizing credit

The first Ecobank was inaugurated in Rwanda, in 2007 in Kigali. Their Federation, the Union of the EcoBank was inaugurated in 1986.In 1994 before the war and the genocide in Rwanda, Union of Eco bank had more than 120 affiliated Ecobanks servicing 366,799 members through the country. During the war approximately 7 millions$ was stolen and the institution closed its doors.

Union of ecobank reopened gradually after the war and in 1996 the system comprised 42,000 members and only 20% of his old staff. Between 1996 and the 1998 operations of credit were stopped because of the important level of nonperforming loans. The distribution of credit started again in 1998 and at the end of 2002 Union of ecobank counted 315,356 members and 135 Ecobanks.

The 27th General meeting of the Union of Ecobank of April 21, 2007 decided to transform this very important coopec into commercial bank which will keep the cooperative principles of governance while offering financial services sophisticated to its members. This was on line with the recommendations of Financial Sector Development Program adopted by the
Government. Beginning of the year 2008, these Ecobanks and their Central Case were transformed into a commercial bank, called Ecobank. Pan_african bank, SA (Ecobank, SA).

The Ecobank transferred all their assets to Union of Ecobank after their evaluation. The capital of Union of ecobank was increased by the value of these assets. Thus revalued the capital was increased by 35% which were bought by Ecobank the strategic partner (Ecobank gives the technical assistance necessary to transform into a true commercial bank).

Vision of Ecobank: to offer a full range of financial services in the urban and rural areas in market driven and financially sustainable way, based on cooperative characteristics.

Special, attention will be given to farmers, agribusiness enterprises, private individuals and micro as well as small and medium enterprises. Is committed on exceeding its client’s expectations in order to earn the right to be the first choice in banking operations, and to be leading retail bank of Rwanda.

- The key which opens and close is a sign of security.
- The sorghum symbolizes prosperity and circle symbolizes solidarity and union.

The Rwanda people’s bank plays doubles role: it puts wealth in security as savings and at the same time, gives access to prosperity.

Objectives of Ecobank Rwanda ltd

- To carry out banking operations
- Keeping fixed accounts for the clients, which earn interests for them.
- Giving loans and advances to the clients with an interests charged on them.
- Receiving deposits and keeping the client’s money in safe custody.
- Development of enterprises
- Leasing financing.

4.2.2. Advancements in Banking Operations Implemented To Customer Services

a) Banking at home- from our bank straight to your desktop. Ecobank offers its clients the possibility to follow the transactions on their accounts through banking at home, and this will easily enhance their cash management.
b) Mobile banking - Ecobank Rwanda is now developing a mobile banking service that will offer its clients the possibility to follow all their transactions using their mobile phones, and this will greatly enhance their time management and efficiency in business.

c) Visa cards - this institution also offering visa cards to its clients for daily cash withdrawals without lining up at the bank and this also greatly enhance their time management and efficiency in business.

D) Corporate banking - corporate clients at Ecobank deserve a first class service tailored to their clients' needs. Ecobank's objective is to build a long-term partnership with its corporate clients in order to earn the right to be the first choice.

c) Retail banking - Ecobank offers a variety of services tailored to their clients' needs, from personal loans to small business loan.

f) Bringing closer services to the clients - the management of Ecobank after realizing tremendous increase in the number of clients, it increased the number of employees mostly the cashiers and also opened new branches and counters both in Kigali and in other provinces of the country so as to facilitate its clients to carry out their business transactions both effectively and efficiently.

4.2.3 Categories of Borrowers

Ecobank offers its loan services to individuals or to companies, who fulfill credit related and other requirements for obtaining a credit facility. Borrowers/customers are classified according to the following categories:

I. Retailer banking and microfinance: this category includes employees, customers and owners of small projects who are not subjected to the rigor of commercial regulation (craftsmen, small shopkeeper).

II. Small and medium enterprises: companies or institutions which are officially identified by status and a trader register.

III. Corporate and large customers: important customers recognized as such by Ecobank because of the size and the organization of their companies as to be defined by the MT. these customers are exclusively registered companies and forwarded their applications directly to the head office of Ecobank.
IV. Agri-business: companies / institutions or individuals who are involved in agricultural activities and require financing for these activities, including the financing of cooperatives.

Ecobank does not finance the sectors and / or customers of the following nature:

- Activities considered illegal under the terms of laws of Rwanda and international laws.
- The nuclear sector and the arms sector.
- Gambling.
- Pornography, prostitution and related industry.
- The manufacture and distribution of drugs and related industries.
- Except for cases of restructuring of existing customers it is not allowed to grant loans to customers who have a loan (have loans) in category 3, 4, or 5 or have a written of loan. In Ecobank or another bank. In order to verify this it is obligatory to verify the status of the customer in the CRB Africa database or a similar database.
- Customers suspected of tax avoidance or involved in money laundering activities or otherwise refused under the framework of the AML policy.

4.2.4 Organizational Structure of Ecobank

The organizational structure of Ecobank is composed of-

- Board of directors
- Director general
- Central director
- Directors of branches, commercial and credits-
- Heads of departments and services.

4.2.5 Activities of Ecobank Nyagatare Branch for the years 2007-2012.

According to the Annual report of 2007, 2008, 2009, 2010, Ecobank registered big achievements, which include the following

- There was a continuous increase of members who applied loans
- There was a continuous sensitization of Rwandese to join Ecobank and a lot of clients joined it hence an increase in deposits.
- Services were brought closer to the clients through opening up new branches in other provinces.
- Staff training also continued to instill them with banking skill and knowledge.
- The net results were increasing at a commendable level.

Source: isonga magazine vol 5

4.2.6 Summary of the loans issued since March 2011
During the same period, the loans passed from 57 to 87 billion RWF (+34.5%) shows that, the amount of loan issued was increasing year to year and one should appreciate for that because when the rate of loan issued continue increasing, it will be a good indicator that many Rwandese have known the benefits of loan and keeps their accounts in the banks as this will lead to more savings, investment and development in general.

Deposits received was increased from 64 billion RWF as at 31/12/2007 to 78 billion RWF on 31/12/2008 (+19). this reveals that the amount of deposit received was increasing consecutively and this is recommendable because many Rwandese have realized the advantages for keeping their money in banks as this is a way of safety and also leads to saving, investment and development in general.

Source: annual reports 2012
Table: 4.5. Types of loans and interest Rate for ecobank Debtors.

<table>
<thead>
<tr>
<th>Loan types</th>
<th>Rate per year</th>
<th>Duration (in Mont)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Loan</td>
<td>14% to 17%</td>
<td>24</td>
</tr>
<tr>
<td>Consumer loan</td>
<td>14% to 17%</td>
<td>24</td>
</tr>
<tr>
<td>Overdraft facilities</td>
<td>1% commission</td>
<td>1</td>
</tr>
<tr>
<td>Retail loans</td>
<td>14% to 17%</td>
<td>24</td>
</tr>
<tr>
<td>Commercial Loan</td>
<td>14% to 17%</td>
<td>24</td>
</tr>
<tr>
<td>Housing Loan</td>
<td>14% to 17%</td>
<td>60</td>
</tr>
<tr>
<td>Investment Loans</td>
<td>14% to 17%</td>
<td>120</td>
</tr>
<tr>
<td>Salary advance loan</td>
<td>14% to 17%</td>
<td>24</td>
</tr>
<tr>
<td>Transport Loan</td>
<td>14% to 17%</td>
<td>36</td>
</tr>
<tr>
<td>Trade line</td>
<td>14% to 17%</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: Credit Policy V3.1 of Ecobank 2012

The table above shows different categories of loans and their respective interest rates. From researcher’s observation, one can conclude that the interest rate on loans is very high and this may be an obstacle to many investors and other wishers to apply for loans.

4.2.7. Provision and Management of Loans

All loans are categorized according to the requirements of Ecobank for regulatory purposes. For quick delivery of services and customer satisfaction, in Ecobank, the management of loans is under two directorates that are the directorate of credits and the directorate of branches, in these directorates, there are two departments of corporate and retail charged entirely for credit allocation. The department of corporate deals with customers of commercial nature and associations with high turnover who apply for loans above ten millions, and the department of retail deals with customers who apply for loans below ten millions.
4.2.8 Types of credit facilities

"Accredit facility" is a service where by Ecobank, in exchange for compensation, lends or promises to lend funds a person or company, or accepts in that person's interest a signed pledge or another form of collateral taking into account the surety's status. The different credit facilities are classified as follows.

- Retail loans: these are loans for private individuals such as salary advances and personal loans.
- Seasonal credits: loans adapted to the seasonal characteristics of rural business.
- Leasing: a contract by which one party undertakes to provide another party the rights to use a fixed asset at a determined price that the latter pays periodically.
- Real estate loans: loans for constructing or remodeling residential or commercial buildings.
- Commercial loans: term loans in anticipation of receipts expected by the customers.
- Investment loans: medium term loan to finance the investment in material fixed assets.
- Overdraft facilities: fluctuating balances within an agreed credit limit until further notice.
- Bank guarantees: ecobank guarantees to irrevocably and unconditionally pay on behalf of the customer to its supplier.
- Letter of credit: a guarantee issued by Ecobank that guarantees on behalf of the purchaser/customer to irrevocably and unconditionally finance trade, by paying its beneficiary.

Finally Ecobank grants loans of duration varying from short term up to 10 years (15 years for staff loans) according to the types of credits are classified according to the terms as follows:

- Until further notice (overdrafts)
- Short term (up to one year)
- Medium term (up to 5 years)
- Long term (more than 5 years)
4.2.9. Conditions to fulfill in order for someone to qualify for the loan.

a) Commercial credit
- Application letter
- Financial statement
- Registry of commerce
- Project
- Securities
- Statute
- have an account in Ecobank

b) Advance on salaries
- Application letter
- Attestation of salary
- Appointment letter
- Photocopy of the national identity card
- have an account in Ecobank

From the interview carried with some of Ecobank staff, they said that there is no problem with repayment of loans from their clients mostly to the salaried people, because their salaries pass in their accounts in and to the commercial people, the cases for the dalliance in loan repayment is very low rate.
CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.0. INTRODUCTION

This chapter presents a brief summary of the main findings of the study and it gives a general overview of what the researcher discovered during the study. It further presents the general conclusion and recommendations about analysis of the contribution of financial institution on development of small and medium enterprises in Rwanda. And suggests policies and measures that will be made to develop small and medium enterprises in Rwanda.

The mission and vision of Ecobank in Rwanda 2007: The dual objective of Ecobank transactional incorporate (ETI) is to build a world-class pan-African bank and to contribute the economic and financial integration and development of the African continent.

Rwanda as a developing country, which is reviving following a century characterized by tragic events in its history such as the partition of its territory, the colonization, the exclusion of a section of its population, post-colonial destructive policies, has to put in place.

The main aim of the study was to investigate the impact of working capital management in small and medium scales or enterprises in Rwanda. And financial performance of microfinance institutions in Nyagatara district, Republic of Rwanda and suggest possible strategies that the microfinance institutions, donors and the government could add to their policy framework to enhance the performance of microfinance institutions in the Republic of Rwanda. The researcher begins the discussion first with Outreach of working capital management in small and medium scale in Nyagatara district. The challenges faced by MFIs not to operate efficiently in Nyagatara district and finally the various efforts made towards enhancing the performance of MFIs in Nyagatara (Rwanda).

Among the measures that were taken, include adopting the national long-term development strategy known as vision 2020 which in its contents include among others, rapid development of entrepreneurship and the modern competitive private sector founded on the culture of
initiative and creativity hinged on solid professional and enterprising critical mass of people (minicofin, 2003:)

Rwanda which needs economic recovery need to encourage more private investors to invest in the banking sector as this has been cited by many as engine for economic development.

5.1. Summary of the Study
1. The study was conducted in Ecobank.

2. The major objective of this study was to find out how financial institution contributes to the development of small and medium enterprises.

3. This has been clearly through Ecobank which gives loans to SMEs and in turn, these SMEs show active they are by expanding businesses, starting income generating projects, which have increased their earnings, created employment, opportunities, contributed to poverty alleviation, payment of taxes to the government, hence development of the nation in general.

4. The researcher also found out majority of the respondents 54% has saving deposits - there are deposits of individuals who want to save small amounts on a regular basis, 36% have Current or demand deposits - there are deposits that are operated with the use of cheques. Such deposits are payable on demand while 10% use time deposits or fixed deposits - there are made for a specified time and can only be accessed after the expiry of the period. This implied that most of the enterprises are commercial oriented which prefer to use their money on daily business transactions rather that keeping it in the banks for a long period while earning little interests on their deposits.

5. In carrying out the research, the researcher found out some factors that hinder the development of small and medium enterprises, such as lack of enough capital, lack of managerial skills, high taxation and high interest rate.

6. It was discovered that, small and medium enterprises lack of managerial skills to carry out their businesses efficiently due to the fact that, they have low level of education, some of the
Management of SMEs does not know to prepare business plan as one of the requirement to some one who wish to get loan from bank.

7. From the clients of Ecobank, it was revealed that, through the issue of loans, many achievements have been made. Also for quick delivery and better customer service, there has been much advancement, such as banking at home, automated teller machine (ATM), and opening many branches and counters in Nyagatare and in other providences of the country.

8. On carrying out the research, the researcher found out that, banks are the engine for the development of SMEs as majority of the respondents 90% revealed it.

9. The study also found out that, SMEs are of a great importance hence should be promoted basing on the grounds that:

i. Small and medium enterprises enhance employment opportunities.
ii. Small and medium enterprises can be located in rural and semi-urban areas to use local resources and to cater for local demand.
iii. Small and medium enterprises help in better income distribution in the society.

The researcher also found out some of the constraints facing SMEs as:

a) Access to finance – SMEs lack of enough capital to carry out their business effectively and getting loans from the banks are sometimes not easy, as it requires many conditions to fulfill.
b) High government taxes – government charges high taxes especially on incomes and profits and this affects their revenues and profits.
c) Lack of enough trained staff – most of the employees are not well trained and specialized and this affects their businesses.
d) Competition – competition especially on the same commodities affects their businesses in terms of expansion and profits.

e) Low demand – Rwanda as a small and a poor country has the low purchasing power.
The study also revealed that, there is a direct relationship between commercial banks and small medium enterprises, as each need another for its development.

5.2. Conclusion

The conclusion of this study is based on the interpretation of the data collected during the course of the study. The study revealed that, small and medium enterprises have the potential to provide some employment opportunities, to fight poverty in their families and in the country at large.

Banks also are profit-making organizations that accept people’s deposits and make loans to them. They make profits through interest charged on loans.

Banks are ready to welcome and assist their clients about financial matters.

As you all know, poverty and unemployment are a threat to most developing countries because high unemployment causes much human unhappiness with families suffering financial suffering, loss of personal self-respect and increase in crime. It is well known that idle mind is a devil’s workshop that is to say when unemployment is high; the economy has not only idle workers, but also idle resources resulting in loss of output (lower GDP).

Despite the fact that banks has been found to be the engine for development of SMEs, there is still a need for more support from government and NGOs for more economic development and full employment.

5.3. Limitation of the Study

During the course of this research, the researcher faced a number of limitations and the following are listed below:

The bank customers / members of SMEs and bank managers who were targeted by the study as reliable and potential respondents seemed not to have time to answer the questions that were asked to them. So the researcher spent time on negotiating with them such that they can answer to the questions which results the delays in obtaining data.

Some respondents mistook the research, about where the targeted information would be taken and to what it would be used for. However, the letter from university administration
indicating that the researcher is a student on research studies for purely academic purposes was used as an assurance to the respondents.

Some respondents gave unnecessary information to open ended questions. Selecting the relevant information was an additional work to the researcher. This was due to the fact that the respondents attitudes towards the researcher were that, the researcher was in position to solve their problems, or present their problems to the high authority. The researcher only picked the information that was relevant to the study.

Financial and time limited were also among the stumbling blocks to the researcher in order to reach all the respondents that were selected and go far this research, because enough funds were not available on time. And this would limit the researcher to go through all the SMEs operating in Rwanda thus this delay the data collecting process.

Finally, despite all the above constraints the researcher were able to receive sufficient information from respondents using questionnaires and interview schedules and able to evaluate the contribution of financial institutions on the development of SMEs in Rwanda.

5.4. Recommendation

1) Considering the present situation of organized small and medium sector in Rwanda, there is a need for more support to expand them into new areas of production and services in liberalized economy.

2) As banks have been found to the engine for development, government should encourage and motivate more investors to invest in banking industry to compete in credit allocation and improved better services.

3) As small and medium enterprises have proved to be job providers and poverty alleviators, NGOs should be encouraged to assist them financially as this will benefit majority of Rwandese, hence development in general.

4) Government and civil society should put emphasis in education if the country is to achieve the proposed development as stated in vision 2020, which states that, all Rwandans will be to read, write, and have diversified professional and technical skills. Rwanda will be endowed with an education system that is well adapted to the socio-economic problems of the country and ITC literary will be wide spread.
5) Accounting firms are advised to join hands with the government agencies in an effort to sensitize the Rwandan business community about the importance of proper keeping of books of accounts and timely preparation of financial statements as it has been found that many firms do not keep proper books of accounts and these results into fines and penalties by RRA.

6) As it has been indicated, Ecobank has made tremendous developments in supporting SMEs by giving those loans to start income generating projects and expansion of their businesses, but they also need to improve in some areas of their activities.

7) Ecobank Ltd should revise its interest on loans. It has been found that the interest charged on loans is very high and this becomes an obstacle for many businesses people to acquire loans from the bank.

8) Furthermore, the conditions to fulfill by Ecobank for giving out loans are not all easy for everybody to obtain, some needs a lot of money, and others are time consuming and even others are impossible to obtain, hence, there is a need to simplify the matter by softening the required conditions.

9) People's Bank also should open more branches in some other districts of the country to cater for the needs of local people and to solve the problem of distance movements of its clients.

5.5. Areas for Future Research
The present study undertaken as partial requirement for the award of bachelor's degree in commerce and applied economics and as it is limited.

It is important to make it clear that due to time and financial constraints, this research did not cover all aspects of financial institutions contribution to the development of small and medium enterprises.

There is a need for further research to cover the areas that were left out of the scope of this study. With this consideration therefore, the following areas were suggestion for further research:

Further research should take the area of comparison of Ecobank with other banks in the country like BPR, BK, and BCR among others.
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Internet

I am Aline nyiramuhooza mukiza, a student of Kampala International University conducting a research on The Impact of Working capital management in small and medium scale(enterprises) in Nyagatare district, - Republic of Rwanda. This study is purely for academic purpose. I have chosen you as one of my Key informants and would be happy to obtain some information from you regarding the above mentioned topic. The information obtain from you will be kept confidential, so feel free to express yourself without fear.

SECTION A: BACKGROUND/DEMOGRAPHIC INFORMATION

Name of Institution ..........................................................................................................................................

Name of department ........................................................................................................................................

DEMOGRAPHIC INFORMATION

This section requires the respondent to provide his or her demographic information by circling the appropriate alternatives from the list of choices provided below.

1. Age bracket (Tick where applicable)
   A. 20 years below   B. 21 – 30 years   C. 31 – 40 years   D. 41 – 50 years   E. 50+

2. Sex
   A. Male           B. Female
4. Marital status
   A. Single   B. Married   C. Widow   D. Divorced

5. Occupation
   A. Peasant   B. Civil servant   C. Business person   D. Politician

6. Level of education
   A. Primary   B. Secondary   C. Tertiary   D. University   E. None

SECTION B: QUESTIONNAIRE ON OUTREACH PERFORMANCE

7. What is the number of active clients served by your institution in Nyagatare district?
   (a) 2009
   (b) 2010
   (c) 2011

8. What is the percentage of female clients served by your institution?
   (a) 2009
   (b) 2010
   (c) 2011

9. How many branches does your institution have in Rwanda?
   (a) 2009
   (b) 2010
   (c) 2011
10. Which of these products and services are provided by your institution? (Please tick all the products and services)

A. Loan   B. Saving services.  C. Insurance service  D. Money transfer
E. Outreach on health and education service

SECTION C: FINANCIAL SUSTAINABILITY PERFORMANCE

11. What are the main sources of funding for your institution?

A. ______________________________________________________
B. ______________________________________________________
C. ______________________________________________________
D. ______________________________________________________

12. Where does the main source of your funding come from?

A. Donors   B. Clients deposits   C. Loans from Commercial Banks   D. Government

13. What are the total assets of your institution in the following years?

(a) 2010
(b) 2011
(c) 2012

14. What are the total Liabilities of your institution in the following years?

(a) 2010
(b) 2011
(c) 2012
15. What is the total Equity of your institution in the following years?
(a) 2010
(b) 2011
(c) 2012

16. What are the main challenges limiting outreach and financial performance of Microfinance institutions in Nyagatare district?
A. 
B. 
C. 
D. 
E. 

17. What efforts have been made to enhance the performance of microfinance institutions in Nyagatare district?
A. 
B. 
C. 
D. 

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18. Suggest possible recommendations to be put in place to improve the performance of microfinance institutions in Nyagatare district.

A. 

B. 

C. 

D. 

E. 
APPENDIX II

QUESTIONNAIRE FOR MICRO BUSINESS ENTERPRISE RESPONDENTS

I am Aline Nyiramuhoza Mukiza, a student of Kampala International University conducting a research on Outreach and Financial performance of microfinance Institutions in Nyagatare district. Republic of Rwanda. This study is purely for academic purpose only. I have chosen you as my respondents and would be happy to obtain some information from you regarding the above mentioned topic. The information obtained from you will be kept confidential, so feel free to express yourself without fear.

SECTION A: BACKGROUND /DEMOGRAPHIC INFORMATION

DEMOGRAPHIC INFORMATION

This section requires the respondent to provide his or her demographic information by circling the appropriate alternatives from the list of choices provided below.

1. Name of respondent...

2. Age bracket (tick where applicable)
   A. 20 years below  B. 21 – 30 years  C. 31 – 40 years  D. 41 – 50 years  E. 50+

3. Sex
   A. Male  B. Female

4. Marital status
   A. Single  B. Married  C. Widow  D. Divorced

5. Occupation
   A. Peasant  B. Civil servant  C. Business person  D. Politician

6. Level of education
   A. Primary  B. Secondary  C. Tertiary  D. University  E. None

SECTION B: QUESTIONNAIRE ON OUTREACH PERFORMANCE

7. Have you ever heard about the services offered by microfinance institutions to micro business enterprises in Nyagatare district?
   1. Yes  2. No (IF NO GO TO 9)
8. If yes, where did you hear about this service?
   1. Outreach officer  2. Community meeting

9. Is your community in your area willing to receive the services offered by MFIs?
   10. If No why

11. What services are offered by these institutions in Rwanda?
    5. Education and health services

12. Have you ever applied for any loan from any of the microfinance institutions operating in Rwanda?
    1. Yes  (2) No (If no, go to 14)

13. If yes, what are the terms of the loan?
    1. More favorable  (2) Favorable  (3) Not favorable  (4) None

14. The clients of microfinance institutions in Nyagatare are mostly dominated by
    1. Males clients  (2) Female clients  (3) Rich people  (4) don’t know

15. What do you think about the performance of microfinance institutions in terms of outreach to the poor?
    1. Excellent  (2) Good  (3) Fair  (4) Poor  (5) Very poor

16. Suggest possible recommendations to be put in place to improve the performance of microfinance institutions in Juba City.
   A
   ..............................................................................................................................
   B..............................................................................................................................
   C..............................................................................................................................
   D..............................................................................................................................
   E..............................................................................................................................