THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Effect of Credit Management System on Financial Performance of Development Bank in Rwanda: Case Study of Development Bank of Rwanda

Edmond Kalimba
Student, Jomo Kenyatta University of Agriculture and Technology, Kigali, Rwanda
Dr. Jaya Shukla
Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kigali, Rwanda
Dr. Mbabazi Mbabazize
Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kigali, Rwanda

Abstract:
The overall objective of this study is to determine the effect of credit management system on the financial performance of the development bank in Rwanda because most development banks have failed to meet their target because of poor credit management system in place hence affecting their profitability, return on asset, equity and capital as well as liquidity.
This research was achieved by use of three specific objectives namely; To analyze the effects of credit policy on financial performance of development banks in Rwanda; to examine the effects of credit appraisal on financial performance of development banks in Rwanda and to assess the effects of credit customer relationship on financial performance of development banks in Rwanda.
The study is significant to the researcher; development bank of Rwanda and JKUAT Literature by different scholars were reviewed on credit management system on the financial performance. Different theoretical and empirical literature by different scholars was reviewed on the effect credit management system on the financial performance. The target population of the study was 134 staffs of BRD and a sample of 57 staff were purposively sampled. The research used the descriptive case study design based on both qualitative and quantitative approaches. Both primary and secondary sources of data source were consulted by used of questionnaire and documentary analysis as a recommended data collection tools. Data was processed by use of SPSS program and analyzed by use of frequency, mean and standard deviation, and the results represented in table.
In the finding it was established that credit management system which consist of credit policy, credit appraisal and credit customer relationship improved the bank return capital, asset of quality and bank management quality. Credit policy has promoted bank earnings and profit and bank liquidity. Table 4.16 gave the relationship between of Credit Management System and financial performance of Development Bank of Rwanda using Pearson whereby the respondents N is 75 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to .710[**] and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a significant relationship between of Credit Management System and financial performance of Development Bank of Rwanda. In conclusion Credit Management System of contributes to positive to financial performance of Development Bank of Rwanda.

1. Introduction

The overall objective of this study is to determine the effect of credit management system on the financial performance of the development bank in Rwanda because most development banks have failed to meet their target because of poor credit management system in place hence affecting their profitability, return on asset, equity and capital as well as liquidity. This research was achieved by use of three specific objectives namely; To analyze the effects of credit policy on financial performance of development banks in Rwanda; to examine the effects of credit appraisal on financial performance of development banks in Rwanda and to assess the effects of credit customer relationship on financial performance of development banks in Rwanda. The study is significant to the researcher; development bank of Rwanda and JKUAT Literature by different scholars were reviewed on credit management system on the financial performance. Different theoretical and empirical literature by different scholars was reviewed on the effect credit management system on the financial performance. The target population of the study was 134 staffs of BRD and a sample of 57 staff were purposively sampled. The research used the descriptive case study design based on both qualitative and quantitative approaches. Both primary and secondary sources of data source were consulted by used of questionnaire and documentary analysis as a recommended data collection tools. Data was processed by use of SPSS program and analyzed by use of frequency, mean and standard deviation, and the results represented in table. In the finding it was established that credit management system which consist

of credit policy, credit appraisal and credit customer relationship improved the bank return capital, asset of quality and bank management quality. Credit policy has promoted bank earnings and profit and bank liquidity. Table 16 gave the relationship between of Credit Management System and financial performance of Development Bank of Rwanda using Pearson whereby the respondent's N is 75 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to .710[**] and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a significant relationship between of Credit Management System and financial performance of Development Bank of Rwanda. In conclusion Credit Management System of contributes to positive to financial performance of Development Bank of Rwanda.

2. Statement of the Problem
Banks are in the risk business, in that in the process of providing financial services, they assume various kinds of financial risks both internal and external hence they involve huge losses that could deprive the banks from their continuity if the proper credit management system is not put in place (IFA, 1999). Given that loans granting activities are usually in banks and very important for their survival, it is clear that there should be an effective system to enable the banks achieve their lending objectives to the community as well as serve in order to achieve their economic objectives.

Some banks in Rwanda have exhibited poor performance reflected by factors such as poor quality of portfolio management, high level of insider lending policy, high ratio of nonperforming loans, lack of credit culture and fraud; as a result, debt recovery is very poor hence bank poor financial performance (NBR, 2012). Indeed, this justifies the persistent difficulties of managing credit operations within the Microfinance institutions in Rwanda. The ultimate of all is that such intuition is centered on existing credit policy. It is in this regard therefore, that the researcher aims at assessing the impact of credit management on financial performance of development bank in Rwanda.

3. Objectives of the Study
The main objective of this study is to examine the effect of Credit Management System on financial performance of Development Bank of Rwandan.

3.1. Specific Objectives
1. To analyze the effects of Credit Policy on financial performance of Development Bank of Rwanda
2. To examine the effects of Credit Appraisal on financial performance of Development Dank of Rwanda
3. To assess the effects of Credit Customer Relationship on financial performance of Development Bank of Rwanda

3.2. Research Questions
1. What is the effect of Credit Policy on financial performance of Development Bank of Rwanda?
2. What is the effect of Credit Appraisal on financial performance of Development Bank of Rwanda?
3. What is the effect of Credit Customer Relationship on financial performance of Development Bank of Rwanda?

4. Materials and Methods

4.0. Introduction
This chapter indicates various methods and techniques used by the researcher during the course of gathering relevant information from the field. It also describes methods and techniques used i.e. Research design, target population, sample design, data collection procedures and data analysis. The purpose of this chapter was to describe and present the methodological framework that was used in this research project. It provides a description of data collection techniques that were used. It further presents the description, of the research design which is the plan, structure and strategy of the investigation conceived so as to obtain answers to the research questions. It highlights sources of information, data collection instruments, scope and area of the study, the various methods used in sample selection, data processing techniques and finally limitations to the research.

4.1. The Research Design
This study used a descriptive case study basing on quantitative and qualitative approaches to analyze the credit management system on profitability of the bank. Grinnell (1990) defines descriptive research as a research which describes phenomena as they exist, it is used to identify and obtain information on the characteristics of a particular problem. For this case the researcher analyzed primary data and BRD financial statements in order to ascertain the effect of credit management system on financial performance of the bank. The relationship was established using Pearson correlation.

4.2. Target Population
The sample study population was 134 staffs of BRD in order to get the effect of Credit Management System on financial performance of BRD.

4.3. Sample Frame

Department	Population	Sample size	Sampling Technique
Agricultural	47	17	Convenient sampling
Livestock	35	13	Convenient sampling
Fisheries	20	10	Convenient sampling
Loan Officers	15	7	Convenient sampling
Investment advisors	3	3	Universal
Total	**134**	**57**	

Table 1
Source: BRD (2015)

4.4. Sample Design
A sample design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample (Kothari, 2004).

4.4.1. Sample Size Determination
When it is not possible to study an entire population but the population is known, a smaller sample is taken using a purposive sampling technique. Slovin's formula allows a researcher to sample the population with a desired degree of accuracy (Stephanie, 2013). Slovin's formula was used to calculate the sample size.
With regard to the level of accuracy, we used a confidence level of 90% as suggested by Kothari (2004), this means that there are 90 chances in 100 (or .90 in 1) that the sample results represent the true condition of the population within a specified precision range against 5 chances in 100 (or .05 in 1) that it does not. The Slovin's formula was calculated as follows:

$$n = \frac{N}{1 + Ne^2}$$

Stephanie (2013)
n= Number of samples or sample size
N= Total population
e= Error tolerance
The population size of this research was 134 employees of BRD. We took a sampling error of 10%, and then the sample size was:
n = 134/1+134(0.10*0.10)
n = 134/ 1+134*0.01
n = 134/1+1.34
n = 134/2.34
n = 57
Therefore, the sample size was 57 respondents.

4.5. Data Collection Instruments

4.5.1. Questionnaires
This is an important method of data collection. Judd (1991) said that a questionnaire is justifiable in data collection mainly because; it enables the researcher to collect large amount of data within a short time period, it also provided opportunity for respondents to give frank, anonymous answers. One set of questionnaire was designed for the BRD staffs; it included both open and closed ended set of questions that to be answered. The questionnaire was written in a simple and clear language for the respondents to feel free while answering. In addition to that the use of questionnaire was considered vital to the research since it provided accurate information regarding the study.

4.5.2. Documentary Review
This research also reviewed literature that was obtained from the case study organization. This literature included bank financial statement, annual reports and other reports from the bank. This method was chosen because; it was vital in providing background information and facts about e banking on performance of the bank before primary data could be collected. Indeed, before field data is collected, a wide collection of data was collected and this was used to cross check with the primary data that was obtained from the field.

4.6. Reliability and Validity
The validity of instruments was tested and it included item analysis that is carried out with the aid of the supervisor, research experts knowledgeable about the themes of the study. The process involves examining and assessing each item in each of the instruments to establish whether the item brings out what it is expected to do.
Item analysis is conducted using the scale that runs from relevant(R), neutral (N), to irrelevant (IR). This assessment gave a content validity ratio (CVR) for each instrument which is computed using the formula:

CVR=R/(R+N+IR)

Where CVR, R, N, AND IR are as mentioned above. The CVR obtained will be greater than 0.5, implying that the instruments were valid.

The reliability of the questionnaire was computed using the Cronbach method of internal consistency. From the computation, the value of the coefficient greater than 0.5, shall imply that the results from the instruments are reliable.

4.7. Data Analysis Procedures

The data collected was analyzed using SPSS. This involved data coding, editing and tabulation especially quantitative data. The purpose of all these was to make the information clear and understandable for other people. Qualitative analysis techniques were used. The Qualitative analysis techniques were complemented with some statistics that was mainly obtained from the secondary data that was obtained through documentary analysis from the case study organization.

The researcher used Pearson correlation test to establish the relationship between the variables. Mean and standard deviations presentations gave clear understanding of the research interpretations for clear and easy understanding of the phenomenon studied.

The Mean ($\overline{X}$)

According to Aggresti (2009), Mean ($\overline{x}$): is the average value calculated by adding up the values of each case for a variable and dividing by the total number of cases.

$$\overline{X} = \frac{1}{n}\sum_{i=1}^{n} xi$$

Where, $\overline{X}$ = mean; n = number total of respondents;

xi = scale value of respondent

Mean	Evaluation
1.00 -2.49	Very weak
2.50 -3.49	Weak
3.50 -4.49	Strong
4.50 - 5.00	Very Strong

Table 2: Evaluation of Mean
Source: Aggresti (2009)

Standard deviation (SD)

The standard deviation is a value which indicates the degree of variability of data. It indicates how close the data is to the mean. The

formula of standard deviation is: $(S) = \sqrt{S^2}$ Where, $S^2 = \frac{1}{n-1}\sum_{i=1}^{n}(xi - \overline{X})^2$

Standard Deviation	Level spreading
SD<0.5	Homogeneity
SD>0.5	Heterogeneity

Table 3: Evaluation of standard deviation
Source: Aggresti (2009)

Pearson Correlation test: The Pearson correlation coefficient is a very useful way to measure the statistical relationship that exists between independent and dependent variables.

Correlation coefficient (positive or negative)	Label/positive or negative
r=1	Perfect linear correlation
0.9 < r < 1	Positive strong correlation
0.7 <r < 0.9	Positive high correlation
0.5 < r < 0.7	Positive moderate correlation
0< r < 0.5	Weak correlation
r=0	No, relationship
-1 <r = < 0	Negative relationship

Table 4: Evaluation of correlation
Source: (Saunders, 2000)

5. Results and Interpretation

5.1. Credit Policy and Financial Performance of Development Bank of Rwanda

5.1.1. Credit policy in Development Bank of Rwanda
Table 5 shows respondents views on Credit policy in Development Bank of Rwanda

Credit policy	Mean	Std. Deviation	Std. Deviation
Credit policy ensures the borrower to have security before loan disbursement	4.6140	.49115	Very strong homogeneity
Credit policy provides ensures that only qualified staffs to work in loan department	4.6667	.47559	Very strong homogeneity
Credit policy ensures that loan is authorized by loan manager	4.6316	.48666	Very strong homogeneity
Credit policy ensures that loan is appraised according to required standards	4.6491	.48149	Very strong homogeneity
The policy set limits for the highest and lowest loan amount to be borrowed depending on the categories	4.6842	.46896	Very strong homogeneity
Credit policy provides provision for legal actions against defaulters	4.6491	.48149	Very strong homogeneity
Credit policy stipulate for affordable interest rate	4.6842	.46896	Very strong homogeneity
Credit policy ensures that all loan is insured	4.7018	.46155	Very strong homogeneity
Valid N (list wise)	57		

Table 5: Credit policy in Development Bank of Rwanda

Table 5 indicates credit policy in Development Bank of Rwanda as the findings analyses it in details below;

Credit policy ensures the borrower to have security before loan disbursement: This was indicated by a very strong mean of 4.6140 and homogeneity standard deviation of .49115. This implies that Credit policy ensures the borrower to have security before loan disbursement. Credit policy provides ensures that only qualified staffs to work in loan department: This was indicated by a very strong mean of 4.6667and homogeneity standard deviation of .47559. This implies that Credit policy provides ensures that only qualified staffs to work in loan department.
Credit policy ensures that loan is authorized by loan manager: This was indicated by a very strong mean of 4.6316 and homogeneity standard deviation of .48666. This implies that Credit policy ensures that loan is authorized by loan manager. Credit policy ensures that loan is appraised according to required standards: This was indicated by a very strong mean of 4.6491and homogeneity standard deviation of .48149. This implies that Credit policy ensures that loan is appraised according to required standards.
The policy set limits for the highest and lowest loan amount to be borrowed depending on the categories: This was indicated by a very strong mean of 4.6842 and homogeneity standard deviation of .46896. This implies that policy set limits for the highest and lowest loan amount to be borrowed depending on the categories in BRD. Credit policy provides provision for legal actions against defaulters: This was indicated by a very strong mean of 4.6491 and homogeneity standard deviation of .48149. This implies that Credit policy provides provision for legal actions against defaulters in BRD.
Credit policy stipulate for affordable interest rate: This was indicated by a very strong mean of 4.6842 and homogeneity standard deviation of .46896. This implies that Credit policy stipulate for affordable interest rate in BRD. Credit policy ensures that all loans is insured: This was indicated by a very strong mean of 4.7018 and homogeneity standard deviation of .46155. This implies that Credit policy ensures that all loans is insured in BRD.

5.1.2. Effect of Credit Policy on Financial Performance of BRD

Credit policy	Mean	Std. Deviation	Std. Deviation
Credit policy has promoted banks capital strength	4.7018	.46155	Very strong homogeneity
Credit policy has promoted bank asset quality	4.6842	.46896	Very strong homogeneity
Credit policy has promoted bank management quality	4.7193	.45334	Very strong homogeneity
Credit policy has promoted bank earnings and profit	4.5439	.50250	Very strong heterogeneity
Credit policy has promoted bank liquidity	4.5263	.50375	Very strong heterogeneity
Valid N (list wise)	57		

Table 6: Effect of Credit Policy on financial performance of BRD

Table 6 indicates effect of credit policy on financial performance of Development Bank of Rwanda as the findings analyses it in details below;
Credit policy has promoted banks capital strength: This was indicated by a strong mean of 4.7018 and homogeneity standard deviation of .46155. This implies that Credit policy has improved the banks return capital. Credit policy has promoted bank asset quality: This was indicated by a very strong mean of 4.6842 and homogeneity standard deviation of .46896. This implies that Credit policy has promoted bank asset quality in BRD.
Credit policy has promoted bank management quality: This was indicated by a very strong mean of 4.7193 and homogeneity standard deviation of .45334. This implies that Credit policy has promoted bank management quality in BRD. Credit policy has promoted bank

earnings and profit: This was indicated by a very strong mean of 4.5439 and heterogeneity standard deviation of .50250. This implies that Credit policy has promoted bank earnings and profit in BRD.

Credit policy has promoted bank liquidity: This was indicated by a very strong mean of 4.5263 and heterogeneity standard deviation of .50375. This implies that Credit policy has promoted bank liquidity in BRD.

5.1.3. Correlation of Credit Policy and Financial Performance of BRD

		Credit Policy	Financial performance of BRD
Credit Policy	Pearson Correlation	1	.853[**]
	Sig. (2-tailed)		.000
	N	57	57
Financial performance of BRD	Pearson Correlation	.853[**]	1
	Sig. (2-tailed)	.000	
	N	57	57
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 7: Correlation of Credit policy and financial performance of BRD

Table 7 is giving the relationship between of Credit policy and financial performance of Development Bank of Rwanda using Pearson whereby the respondents, N is 75 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to .853[**] and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a significant relationship between of Credit policy and financial performance of Development Bank of Rwanda. In conclusion credit policy contributes to positive to financial performance of Development Bank of Rwanda.

5.2. Credit Appraisal and Profitability of Development Bank of Rwanda

5.2.1. Credit Appraisal in Development Bank of Rwanda

Credit Appraisal	Mean	Std. Deviation	Std. Deviation
The bank critically analyzes the character of the individual to be given loan	4.5439	.50250	Very strong heterogeneity
The bank analyzes capacity of the borrower in form of cash flows	4.5263	.50375	Very strong heterogeneity
The bank analyzes the net capital of the borrower	4.5965	.49496	Very strong homogeneity
The bank ensures that there is collaterals or security in case of nonpayment.	4.6667	.47559	Very strong homogeneity
The bank ensures that business environment is considered before loan disbursement	4.5614	.50063	Very strong heterogeneity
Valid N (list wise)	57		

Table 8: Credit Appraisal and financial performance of BRD

Table 8 indicates assessing credit appraisal in Development Bank of Rwanda as the findings analyses it in details below;

The bank critically analyzes the character of the individual to be given loan: This was indicated by a strong mean of 4.5439 and heterogeneity standard deviation of .50250. This implies that bank critically analyze the character of the individual to be given loan.

The bank analyzes capacity of the borrower in form of cash flows: This was indicated by a strong mean of 4.5263 and heterogeneity standard deviation of .50375. This implies that bank analyze capacity of the borrower in form of cash flows.

The bank analyzes the net capital of the borrower: This was indicated by a strong mean of 4.5965 and homogeneity standard deviation of .49496. This implies that bank analyzes the net capital of the borrower. The bank ensures that there is collaterals or security in case of nonpayment: This was indicated by a strong mean of 4.6667 and homogeneity standard deviation of .47559. This implies that bank ensures that there is collaterals or security in case of nonpayment.

The bank ensures that business environment is considered before loan disbursement: This was indicated by a strong mean of 4.5614 and heterogeneity standard deviation of .50063. This implies that bank ensures that business environment is considered before loan disbursement.

5.2.2. Effect of Credit Appraisal on profitability of Development Bank of Rwanda

Credit Appraisal	Mean	Std. Deviation	Std. Deviation
Credit appraisal has promoted banks capital strength	4.5789	.49812	Very strong homogeneity
Credit appraisal has promoted bank asset quality	4.5263	.50375	Very strong heterogeneity
Credit appraisal has promoted bank management quality	4.5439	.50250	Very strong heterogeneity
Credit appraisal has promoted bank earnings and profit	4.6140	.49115	Very strong homogeneity
Credit appraisal has promoted bank liquidity	4.5088	.50437	Very strong heterogeneity
Valid N (list wise)	57		

Table 9: Effect of Credit Appraisal on profitability of Development Bank of Rwanda

Table 9 indicates assessing effects of credit appraisal on financial performance in Development Bank of Rwanda as the findings analyses it in details below;

Credit appraisal has promoted banks capital strength: This was indicated by a strong mean of 4.5789 and homogeneity standard deviation of .49812. This implies that Credit appraisal has improved the banks return capital. Credit appraisal has promoted bank asset quality: This was indicated by a very strong mean of 4.5263 and homogeneity standard deviation of .50375. This implies that Credit appraisal has promoted bank asset quality in BRD.

Credit appraisal has promoted bank management quality: This was indicated by a very strong mean of 4.5439 and homogeneity standard deviation of .50250. This implies that Credit appraisal has promoted bank management quality in BRD. Credit appraisal has promoted bank earnings and profit: This was indicated by a very strong mean of 4.5088 and heterogeneity standard deviation of .50437. This implies that Credit appraisal has promoted bank earnings and profit in BRD. Credit appraisal has promoted bank liquidity: This was indicated by a very strong mean of 4.5088 and heterogeneity standard deviation of .50437. This implies that Credit appraisal has promoted bank liquidity in BRD.

5.2.3. Correlation of Credit Appraisal and Financial Performance of BRD

		Credit Appraisal	Financial performance
Credit Appraisal	Pearson Correlation	1	.660[**]
	Sig. (2-tailed)		.000
	N	57	57
Financial performance	Pearson Correlation	.660[**]	1
	Sig. (2-tailed)	.000	
	N	57	57
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 10: Correlation of Credit Appraisal and profitability of BRD

Table 10 is giving the relationship between of credit appraisal and financial performance of Development Bank of Rwanda using Pearson whereby the respondents, N is 75 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to .660[**] and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a significant relationship between of credit appraisal and financial performance of Development Bank of Rwanda. In conclusion credit appraisal contributes to positive to financial performance of Development Bank of Rwanda.

5.3. Customer Relationship and Financial Performance of Development Bank of Rwanda

5.3.1. Customer Relationship in Development Bank of Rwanda
Table 11 shows respondents views on Customer relationship in Development Bank of Rwanda

Customer relationship	Mean	Std. Deviation	Std. Deviation
The bank ensures advisory services is provided to the borrower before loan disbursement	4.5263	.50375	Very strong heterogeneity
The bank ensures loan officers monitors and communicate with clients on loan performance from time to time	4.7193	.45334	Very strong homogeneity
Banks reschedules loan payment for their customers	4.5263	.50375	Very strong heterogeneity
The bank provides affordable interest rate for their clients	4.5614	.50063	Very strong heterogeneity
The bank charge reasonable penalties for loan defaulters	4.5965	.49496	Very strong homogeneity
In case of disaster the insurance takes over burden of loan payment	4.5439	.50250	Very strong heterogeneity
Valid N (list wise)	57		

Table 11: Customer relationship in Development Bank of Rwanda

Table 11 indicates assessing Customer relationship in Development Bank of Rwanda as the findings analyses it in details below;
The bank ensures advisory services are provided to the borrower before loan disbursement: This was indicated by a strong mean of 4.5263 and heterogeneity standard deviation of .50375. This implies that bank ensures advisory services are provided to the borrower before loan disbursement. The bank ensures loan officers monitors and communicate with clients on loan performance from time to time: This was indicated by a strong mean of .49496 and homogeneity standard deviation of .45334. This implies that bank ensures loan officers monitors and communicate with clients on loan performance from time to time.
Banks reschedules loan payment for their customers: This was indicated by a strong mean of 4.5263 and heterogeneity standard deviation of .50375. This implies that the banks reschedule loan payment for their customers. The bank provides affordable interest

rate for their clients: This was indicated by a strong mean of 4.5614 and heterogeneity standard deviation of .50063. This implies that the bank provides affordable interest rate for their clients.

The bank charge reasonable penalties for loan defaulters: This was indicated by a strong mean of 4.5965 and heterogeneity standard deviation of .50063. This implies that bank charge reasonable penalties for loan defaulters. In case of disaster the insurance takes over burden of loan payment: This was indicated by a strong mean of 4.5439 and heterogeneity standard deviation of .50250. This implies that in case of disaster the insurance takes over burden of loan payment.

5.3.2. Effect of Customer Relationship on Financial Performance of BRD

Customer relationship	Mean	Std. Deviation	Std. Deviation
Loan customer services has promoted banks capital strength	4.5263	.50375	Very strong heterogeneity
Loan customer services has promoted bank asset quality	4.5263	.50375	Very strong heterogeneity
Loan customer services has promoted bank management quality	4.7368	.44426	Very strong homogeneity
Loan customer services has promoted bank earnings and profit	4.6842	.46896	Very strong homogeneity
Loan customer services has promoted bank liquidity	4.6140	.49115	Very strong homogeneity
Valid N (list wise)	57		

Table 12: Effect of Customer relationship on financial performance of BRD

Table 12 indicates assessing effects of Customer relationship on financial performance in Development Bank of Rwanda as the findings analyses it in details below;

Customer relationship has promoted banks capital strength: This was indicated by a strong mean of 4.5263 and homogeneity standard deviation of .50375. This implies that Customer relationship has improved the banks return capital. Customer relationship has promoted bank asset quality: This was indicated by a very strong mean of 4.5263 and homogeneity standard deviation of .50375. This implies that Customer relationship has promoted bank asset quality in BRD.

Customer relationship has promoted bank management quality: This was indicated by a very strong mean of 4.7368 and homogeneity standard deviation of .44426. This implies that Customer relationship has promoted bank management quality in BRD. Customer relationship has promoted bank earnings and profit: This was indicated by a very strong mean of 4.6842 and heterogeneity standard deviation of .46896. This implies that Customer relationship has promoted bank earnings and profit in BRD. Customer relationship has promoted bank liquidity: This was indicated by a very strong mean of 4.6140 and heterogeneity standard deviation of .49115. This implies that Customer relationship has promoted bank liquidity in BRD.

5.3.3. Correlation of Customer Relationship and Financial Performance of BRD

		Customer Relationship	Financial Performance of BRD
Customer Relationship	Pearson Correlation	1	710[**]
	Sig. (2-tailed)		.000
	N	57	57
Financial Performance of BRD	Pearson Correlation	.710[**]	1
	Sig. (2-tailed)	.000	
	N	57	57
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 13: Correlation of Customer relationship and financial performance of BRD

Table 13 above is giving the relationship between of Customer relationship and financial performance of Development Bank of Rwanda using Pearson whereby the respondents, N is 75 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to .710[**] and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a significant relationship between of Customer relationship and financial performance of Development Bank of Rwanda. In conclusion Customer relationship contributes to positive to financial performance of Development Bank of Rwanda.

5.4 .Correlation of Credit Management System and Financial Performance of BRD

		Credit Management System	Financial Performance of BRD
Credit Management System	Pearson Correlation	1	740[**]
	Sig. (2-tailed)		.000
	N	57	57
Financial Performance of BRD	Pearson Correlation	.740[**]	1
	Sig. (2-tailed)	.000	
	N	57	57
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 14: Credit Management System and financial performance of BRD

Table 14 is giving the relationship between of Credit Management System and financial performance of Development Bank of Rwanda using Pearson whereby the respondents, N is 75 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to .710[**] and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a significant relationship between of Credit Management System and financial performance of Development Bank of Rwanda. In conclusion Credit Management System of contributes to positive to financial performance of Development Bank of Rwanda.

6. Conclusion and Recommendations

6.0. Introduction
The chapter covers the summary, conclusion and recommendation of the findings. The summary covers the findings in relation to the objective of the study. The summary is followed by the conclusion which is based on the findings of the study. And recommendations to the challenges facing the bank

6.1. Summary of Findings
The study was mainly concerned about the credit management system and financial performance of Rwanda Development Bank. This summary was based on the objectives of the study.

6.1.1. Effect of Credit Policy on Financial Performance of Development Bank of Rwanda
The finding shows that Credit policy ensures the borrower to have security before loan disbursement, provides ensures that only qualified staffs to work in loan department, ensures that loan is authorized by loan manager, ensures that loan is appraised according to required standards, there is limits for the highest and lowest loan amount to be borrowed depending on the categories, provides provision for legal actions against defaulters, stipulate for affordable interest rate and ensures that all loans is insured. The finding further shows that the policy has improved the banks return capital, asset of quality and bank management quality. Credit policy has promoted bank earnings and profit and bank liquidity: This was indicated by a very strong mean of 4.5263 and heterogeneity standard deviation of .50375. This implies that Credit policy has promoted bank liquidity in BRD. Table 12 gave the relationship between of credit policy and financial performance of Development Bank of Rwanda using Pearson whereby the respondents, N is 75 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to .853[**] and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a significant relationship between of credit policy and financial performance of Development Bank of Rwanda. In conclusion credit policy contributes to positive to financial performance of Development Bank of Rwanda.

6.1.2. Effect of Credit Appraisal on Financial Performance of Development Bank of Rwanda
The finding shows that the bank critically analyzes the character of the individual to be given loan, they analyze the capacity of the borrower in form of cash flows, they analyze the net capital of the borrower, they ensure that there is collaterals or security in case of nonpayment and lastly the bank ensures that business environment is considered before loan disbursement. This has improved the banks return capital, asset of quality and bank management quality. Credit policy has promoted bank earnings and profit and bank liquidity: Table 12 gave the relationship between of credit appraisal and financial performance of Development Bank of Rwanda using Pearson whereby the respondents, N is 75 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to .660[**] and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a significant relationship between of credit appraisal and financial performance of Development Bank of Rwanda. In conclusion credit appraisal contributes to positive to financial performance of Development Bank of Rwanda.

6.1.3. Effect of Customer Relationship on Financial Performance of BRD

The finding shows that the bank ensures advisory services are provided to the borrower before loan disbursement, they ensure loan officers monitors and communicate with clients on loan performance from time to time, reschedules loan payment for their customers is well negotiated, the bank provides affordable interest rate for their clients, the bank charge reasonable penalties for loan defaulters and in case of disaster the insurance takes over burden of loan payment. This has improved the banks return capital, asset of quality and bank management quality. Credit policy has promoted bank earnings and profit and bank liquidity. Table 12 gave the relationship between of Customer relationship and financial performance of Development Bank of Rwanda using Pearson whereby the respondents, N is 75 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to .710[**] and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a significant relationship between of Customer relationship and financial performance of Development Bank of Rwanda. In conclusion Customer relationship contributes to positive to financial performance of Development Bank of Rwanda.

6.2. Conclusion

In the finding it was established that credit management system which consist of credit policy, credit appraisal and credit customer relationship improved the banks return capital, asset of quality and bank management quality. Credit policy has promoted bank earnings and profit and bank liquidity. Table 14 gave the relationship between of Credit Management System and financial performance of Development Bank of Rwanda using Pearson whereby the respondents, N is 75 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to .710[**] and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a significant relationship between of Credit Management System and financial performance of Development Bank of Rwanda. In conclusion Credit Management System of contributes to positive to financial performance of Development Bank of Rwanda.

6.3. Recommendations

The researcher came up with the following recommendations.
 i. The Bank should improve on their credit policy so that it is comprehensive enough to capture all credit risk related issue and prevent the bank from making losses
 ii. The Bank should conduct proper credit assessment in order to come up with reliable and trusted clients.
 iii. The bank should also analyze the business environment critically in order to avoid credit risk from occurring.
 iv. There should be a relationship banking department dealing will customer relationship aspect especially monitoring and managing credit. This will enable the bank to communicate and establish strong relationship with clients.

6.4. Areas of Further Studies

The researcher has observed the following areas of further studies;
 i. The effects of Relationship Banking on financial performance of Development Banks in Rwanda
 ii. The effects of Interest rate changes on financial performance of Development Banks in Rwanda

7. References

 i. Adams.D (1995). The role of MFIs in poverty reduction. Rwanda printing and publishing
 ii. Ahimbisibwe, G. (2002): Credit Background, Guidelines for the Design and management of credit funds. The Micro Finance Banker, issue 2 NO4; 13
 iii. Altman, E. I. (1968). Financial Ratios, Discriminant Analysis and The Prediction of Corporation Bankruptcy. The Journal of Finance, 23, 589-609.
 iv. Armstrong P. (2005) Critique of Entrepreneurship: People and Policy, London, Palgrave-MacMillan.
 v. Basel Committee on banking Supervision (1999). Principles for the Management of Credit Risk, CH–4002Basel, Switzerland Bank for International Settlements.
 vi. Bates, R.A & Holton, E F (1995) computerized performance monitoring: a review of human resource issues, Human Resource Management Review, winter, pp 267–88
 vii. Bourke, P., (1989), «Concentration and other determinants of bank profitability in Europe,
 viii. Improving Internal Control: A Practical Guide for Microfinance Institutions. Technical Note No. 1. Washington DC: Micro Finance Network.
 ix. Christopher J (1996). Scholarly article on "an analysis of commercial bank exposure to credit Risk". Wharton school center for financial institutions.
 x. Churchill, N & Craig F. (1997). Managing Growth: The Organizational Architecture of
 xi. Microfinance Institutions. USAID's Microenterprise Best Practices Project. Bethesda, MD: Development Alternatives, Inc.
 xii. CMCM Report. (2000): Baseline study on lending methodologies of MFIs in Uganda. Uganda printing and publishing
 xiii. Commercial Banks (2005): Panel Evidence from the Period 1995-2002», Money Macro and Finance (MMF) Research Group Conference 2005

xiv.　Dickerson, Pandey & Kreslow, X. (1995). Financial services for poverty reduction action Aid London. Entice Hall publisher, London

xv.　Gieseche, K. (2004). "Credit Risk Modelling and Valuation: An Introduction", Risk: Models and Management, Vol.2, Cornell University, London.16.

xvi.　Gilbert, O, B (2004). Dissertation on "Credit Risk Management in banks; the case of Scandinaviska Enskilda Banking (SEB) Stockholm". University of Skovde press.

xvii.　Gitman, L (2003), Principles of Managerial Finance, 10th edition, Addison-Wesley Publishing.

xviii.　Grinnell, R.M. & Williams, M. (1990). Research in social work: A Premier. Peakock Publishers: Illinois USA.

xix.　GTZ Report (1997): Guidelines for the Design and management of credit funds, 22-39

xx.　Gujarati, D.N. & Sangeetha, S. (2007). Basic Econometric, 4th Edition, McGraw-Hill Education Books Ltd., India

xxi.　Hart, O. & Moore, J (1998), "Default and Renegotiation: A Dynamic Model of Debt,"Quarterly Journal of Economics 113(1) (1998), 1-41

xxii.　Hulme, D. (1992): Causes of Default in micro credit; motivating and Essential to addressing the causes of default .ASA Report VOI.14 NO13

xxiii.　Kalifani, J. (2001).Guidelines for MFIs in Rwanda. New vision publications

xxiv.　Kao, M & Eom, K (2000). Scholarly article on "Quantifying Credit Risk, Default Prediction".

xxv.　Kargi, H.S. (2011). Credit Risk and the Performance of Nigerian Banks, Ahmadu Bello University, Zaria

xxvi.　Kosmidou, K., Tanna, S. & Pasiouras, F. (2005)«Determinants of Profitability of Domestic UK

xxvii.　Kothari C.R (2008) research methodology, New Delhi, Publisher New age international ltd.

xxviii.　Margrabe K, (2007). The incidence of secured debt: evidence from the small business Community, Journal of Financial and Quantitative Analysis, Vol. 24, 379-94

xxix.　Mehta, s. (2000): Understanding MFIs .Prentice Hall publisher, London. Micro Finance Institutions Act vol. 1 2002.

xxx.　Merton R, C. (1974). on the pricing of corporate debt: the risk structure of interest rates. J. Finance 29:449–70

xxxi.　Molineux, P., Thornton, J., (1992), «Determinants of European Bank Profitability: A Note», Journal of Banking and Finance16 (6), 1173–1178.

xxxii.　Mutesasira, J. (1997): Financial systems and small enter prices development. MCC records.

xxxiii.　Nelson, C.R. & Schwert, G. W (2006). Short-term Interest Rates as Predictors of Inflation On Testing the Hypothesis that the Real Rate of Interest is Constant. American Economic Review. 67, p. 478-86

xxxiv.　Pandey, I.M. (1998). Financial Management (17th Ed), vakas publishing house PUT Ltd, New Delhi.

xxxv.　Progress reputes (2995); performance evaluation and trend .Internal records 12-13

xxxvi.　Puxty, A & Dodd's, G. (1991): Financial management; methods and meaning (2nd Ed),   Chapman and hall Ltd .London.

xxxvii.　Rajan, R. G. and Zingales, L. (1998), "Financial Dependence and Growth", American Economic Review, 88(3), pp. 559-586.

xxxviii.　Rao, L. (2002): Essence of Micro Finance in Rwanda. New Times publishers

xxxix.　Ross, W (2008).Modern Financial Management 8th edition. McGraw Hill.

xl.　Saunders, I & Cornett, N (2007). Financial Markets and Institutions; an Introduction to the Risk Management Approach. McGraw Hill Pub.2007.

xli.　Semukono, G. (1996). The vast Majority of first time businesses fail. monitior publishers

xlii.　Smirlock, M., (1985), «Evidence on the (non)relationship between concentration and profitability in banking», Journal of Money, Credit, and Banking17 (1), 69–83

xliii.　Stephanie, E. (2003). Slovin's Formula Sampling Techniques. Houghton-Mifflin, New York, USA

xliv.　Suruma, E (1996): Financial Technologies to achieve sustainability: Bank of Uganda records (un   published).

xlv.　Trautwein, U., & Koller, O. (2003). The relationship between homework and achievement still much of a mystery. Educational Psychology Review , 15(2), 115 – 145.

xlvi.　Van den Hoonaard, W. C. (1997), working with sensitizing concepts: Analytical field research. Thousand Oaks, CA: Sage.

xlvii.　Van Horne, C. (1989): Financial management and policy (17th Ed), Prentice Hall International Inc. New Delhi.

xlviii.　Wamasembe, P. (2002): The challenges of growth and Poverty Reduction, A World Bank country study. The case of Uganda, MCC Report NO.55 I-14

xlix.　Waster. N (1991): Financial policies; a comparative study; World Bank Report151-17