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## IMPACT OF CREDIT OFFERED BY FINANCIAL INSTITUTIONS ON SOCIO-ECONOMIC DEVELOPMENT

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### ABSTRACT

*This paper set out to investigate the impact of credit offered by financial institutions on social economic development of its beneficiaries from 2016-2020. General objective was to assess the impact of credit offered on socio-economic development while specific objectives were to analyze status of loans management to provide recommendations based on the findings. The research results revealed that credit management is effective where by total loans offered has a positive growth, trend from 2016-2020 has been increased its credits where from 2016-2017 increment of credit was 22% in 2018 was 20% and 19% in 2019. This increase of loan granted by resulted from strong management of loan. At the end of 2019 shows how the credit amount progressed from 2016 to 2019 the amount has raised step by step at the beginning, offered Rfw 385,824,570 to Rwf 678,005,885 from 2016 up to 2019, the progression in four years raised roughly 2.5 times. Whereas nonperforming loans at was the ratio were good during our period of study 2016 to 2019, the normal ratio of NBR required to banks should not exceed In 2016 the ratio increase to 4.5% and 5.6% in 2017 also increased up to 4.9% in 2018 and 5.7% in 2019 which is better compare to the standard of National Bank of Rwanda does not exceed 7%. The research findings on impact of credits to the socio-economic development was analysed by using T-test analysis whereby respondents' response were valued at likely score of the results shows that balance diet: by testing hypothesis the the p-value from tailed sample mean and two tail has been used, degree of freedom (df)=94, and p-value(P)=1.98 and 1.66 ~two tail, one tail. The student statistical table that significant level is above 0.05 ( $p \geq 0.05$ ). thus implies that there is statistical difference between two sample means. Income of respondents: by testing hypothesis the the p-value from tailed sample mean and two tail has been used, degree of freedom (df)=94, and p-value(P)=1.985 for two tail. The student statistical table that significant level is above 0.05 ( $p \geq 0.05$ ). thus implies that there is statistical difference between two sample means. This implies that there is change of social economic status of beneficiaries.*

*Key concepts: Credit, commercial bank and Social economic development*

## INTRODUCTION

Financial services to low-income poor and very poor self-employed people. These financial services generally include savings and credit but can also include other financial services such as insurance and payment services (OTERO, 2010). Schreiner and Colombet (2011) define bank as “the attempt to improve access to small deposits and small loans for poor households neglected by banks.” Therefore, bank involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector. In recent years, however, the relationship between banks and small businesses has been improving as more and more banks realize the strength and importance of this growing market.

Many major commercial banks have added special services and programs for small businesses; others are streamlining their loan paperwork and approval process to get loans to socio-economic development faster (Douglas, 2013). It depends on what the poor do with this money, oftentimes it is gambled away or spent on alcohol, so focusing solely on increasing incomes is not enough. The focus needs to be on helping the poor to “sustain a specified level of well-being” by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved (Wright, 2010).

## RATIONAL OF STUDY

Money is not a commodity; it is not dug out of the ground, nor does it grow on trees. Bank loans and in particular the concept of bank money is man-made, and based on the confidence and trust. Furthermore the creation of bank loans and with it bank deposits does not arise from volume of saving deposited in the banks. Interest rates are social construct they are decided by committee of men, taking into account the interest of finance and economy. And as such unlike oil or copper or diamonds, money and bank loans are free goo, and therefore there are no intrinsic reasons for the scarcity of capital as Keynes argued in the General Theory. Hence great deal of money circulated in the economy is contributed by the commercial banks. Commercial banks are also an important element in implementing the monetary and fiscal policy

by the central bank. When a central bank decides to introduce concretionary monetary policy, commercial banks have to increase their interest rates to comply with the central bank. Therefore commercial banks play an important in bring economic development in a country (Mbaaga, 2010).

Commercial bank plays an important and active role in the economic development of a country. The financial services needed do not cover micro credit alone, but also other services are in demand. These include above all savings, but also money transfer services, micro insurance and micro leasing, all of which can play an important role in the economic empowerment of the poor. The Government of Rwanda is aware that poverty reduction could not be achieved without access to financial services by the poor. As a result, bank is considered as a powerful tool to alleviate the poverty.

#### **LITERATURE REVIEW:**

**Todaro, Campsey and Mc Clelland (2014):** This study tests the hypothesis that there is a positive impact of commercial banks improved service quality which influence some intermediate variables of which later will have an effect on customers welfare as a result of reduced interest rates on loanable funds. The findings of the research yielded a positive correlation between the argues that if customers do not save their money with commercial banks they stand high risks of making losses in case of theft and even the money saved on their saving account would generate an interest rate to the commercial banks thus making a lot of profits and improving their livings standards, points out the relationship between quality financial services offered by commercial banks and welfare of their customers. In addition, offers credit to support purchase of goods and services and to finance capital investments increases the productivity of customers' resources and makes as possible a standard of welfare for individuals and families as revealed. Business growth depends on safety and good control of funds which reduces on mismanagement and misappropriations.

**Parren and James et al, (2003):** The measures to ensure safety of money needs daily banking of funds received business to reduce on theft and mismanagement of funds. Thus commercial banks offer the security service to customers' money which increases on investments thus promoting growth and welfare explains that if commercial banks properly manage its funds and

maintains a positive balance especially on bank accounts in form of fund deposits, it may increase on the position of performance through the interest earned. Having positive funds balance enables a customers to take advantage of funds discounts from suppliers, purchase input and enables the customers to carry on further investment in profitable ventures thus leading to socio-welfare as financial service delivered properly handle customers funds and awarding an interest on the money saved in the bank by the customers.

### **RESEARCH METHODOLOGY**

For this study researchers have used secondary data. Financial statements from 2017 to 2019 was used and the T-test analysis was made to get the relationship among the variabres. T-test analysis whereby the results shows that balance diet: by testing hypothesis the the p-value from tailed sample mean and two tail has been used, degree of freedom (df)=94, and p-value(P)=1.98 and 1.66 ~two tail, one tail.

To understand the relationship between the analyse the impact of credit offered by financial institutions on socio-economic development of its beneficiaries:

H1: Loans offered by financial institutions are effectively managed.

H2: Bank loans offered by financial institutions have impact on socio-economic development of its beneficiaries.

### **DATA ANALYSIS**

#### **Loan's Progression from 2016-2019**

**Table No: 1**

Year	2016	2017	2018	2019
Loan granted	385,824,570	471,704,315	568,104,724	678,005,885
Change in Rwf (000)	-	85,879,745	96,400,409	109,901,161
Change in %	-	0.22	0.20	0.19

#### **Source Annual report from 2016-2020**

According to National Bank of Rwanda (NBR) standard on loan providing, NBR requires all commercial banks operate in Rwanda, for total amount deposit for 100% must be used as follows: 5% reserve requirements, 15% money base and where 80% must be delivered as loan

and commercial banks not go beyond on that standard of 80%. According to the above table the researcher has been found that from 2016-2020 has been increased its credits where from 2016-2017 increment of credit was 22% in 2018 was 20% and 19% in 2019. This increase of loan granted resulted from strong management of loan. At the end of 2019 shows how the credit amount progressed from 2016 to 2019 the amount has raised step by step at the beginning, offered Rwf 385,824,570 to Rwf 678,005,885 from 2016 up to 2019, the progression in four years raised roughly 2.5 times.

### Comparison between deposit and loan

**Table No: 2**

Year	Deposit “000”Frw	Loans issued “000”Frw	Ratio in%
2016	455,213,393	471,704,315	1.03
2017	531,959,345	568,104,724	1.07
2018	642,698,799	678,005,885	1.05
2019	642,698,799	678,005,885	1.05

**Source:** Annual Report, 2016-2020

This table highlights the changes between deposit and loans during our study. The result shows that the bank granted loans of 103% in 2016, 107% in 2017 and 105% in 2018 and 105 in 2019. It must be complying with the BNR’ regulations on loan granted which says that must not exceed 80% of deposit collected. Moreover, these figure mentioned in the above table highlight some threats that the bank faced therefore, there may cause of the challenges such as lacking the enough liquidity or cash to be reimburse to the owners in case they immaturely need to withdraw their money not only that but also difficulties in covering some internal costs like paying the owners deposits.

### Asset Quality Ratio

**Table No: 3**

Year	2016	2017	2018	2019
	(Rwf’000)	(Rwf’000)	(Rwf’000)	(Rwf’000)
Non-Performing loan (NPL)	17,362,106	26,415,442	27,837,131	38,646,335
Total Loan	385,824,570	471,704,315	568,104,724	678,005,885

NPLs to Total loans	4.5	5.6	4.90%	5.7%
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**Source:** Financial statements, 2016-2020

As the central bank instruction on AQR which is non- performing loan to total loan, each bank should not exceed 7%. The table above shows NPL to total loan that the ratio were good during our period of study 2016 to 2019, the normal ratio of NBR required to banks should not exceed In 2016 the ratio increase to 4.5% and 5.6% in 2017 also increased up to 4.9% in 2018 and 5.7% in 2019 which is better compare to the standard of NBR does not exceed 7%. The performance was due to reduction of loans provided to customers.

### Provision and loans written off for the year

**Table No: 4**

	2016 Rwf, 000	2017 Rwf, 000	2018 Rwf, 000	2019 Rwf, 000
Provision	14,126,291	20,702,211	24,658,091	47,990,325
Loans written off	3,677,333	7,499,834	8,939,905	6,119,849

**Source:** Annual report, 2016-2020

This table show that the provision from 2016 was 14,126,291 with the loans written off were 3,677,333, from 2017 the provision was 20,702,211 with written off loans of 7,499,834, from 2018 the provision was 24,658,091with written off loans of 8,939,905 while the amount provisioned from 2019 was 47,990,325 with written off loans of 6,119,849. The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery

### Impairment on loans and advanced

**Table No: 5**

	2016	2017	2018	2019
	“000, Frw”	“000, Frw”	“000, Frw”	“000, Frw”
Net impairment on loans and advanced	76,907,284	16,489,292	11,409,582	17,886,085
Total loans granted	385,824,570	471,704,315	568,104,724	678,005,885
Ratio	0.199	0.035	0.020	0.026

**Source:** Annual report from 2016-2020

The table above shows that the total loans granted to the customers were from 2016 the loans granted to the customers increased up the loans granted 385,824,570 and net impairment on loans and advanced to customers increased up to 76,907,284, from 2017 the loans and advanced to customers were of 471,704,315 net impairment loans and advanced were with 16,489,292 an increment of 35% while from 2018 the credit offered to the customers were 568,104,724 and Net impairment on loans and advanced were 11,409,582 while from 2019 the total loans granted was 678,005,885 and Net impairment on loans and advanced which is equal with 17,886,085 with rate of 26%.

**Capacity of respondents to access mutual health insurance**

t-Test: Paired Two Sample for Means

	<i>After</i>	<i>Before</i>
Mean	4.2	2.157
Variance	0.417021277	0.7088
Observations	95	95
Pearson Correlation	0.743533449	
Hypothesized Mean Difference	0	
df	94	
t Stat	35.331	
P(T<=t) one-tail	2.2706	
t Critical one-tail	1.661	
P(T<=t) two-tail	4.54E+00	
t Critical two-tail	1.985	

Source: research results; 2020

Health is directly related to the ability to work and the productivity levels and the income generated thereafter. Before getting the loans, mean score of respondents' on Capacity to access mutual health insurance was 2.1578947 which indicates weak but after having credit at the mean score on capacity reached at 4.2 which indicate a strong mean score. this implies tha credit offered by financial institutions enables its beneficiaries to have access on health insurance.

**Hypothesis testing**

In order to test our hypothesis (df)=94, p-value =1.985 (critical two tails was used ) the significant level is between 0.05 above (  $p \geq \bar{\alpha}$ ), this implies that there is statistically significant difference between means of two sample.



### Access to balanced diet; descriptive statistics

	<i>After</i>	<i>Before</i>
Mean	4.252632	2.126316
Variance	0.446137	0.771109
Observations	95	95
Pearson Correlation	0.597969	
Hypothesized Mean Difference	0	
df	94	
t Stat	28.85714	
P(T<=t) one-tail	8.43E-49	
t Critical one-tail	1.661226	
P(T<=t) two-tail	1.69E-48	
t Critical two-tail	1.985523	

Source: research results;2020

This shows that before getting credits, the mean is 2.126316 means that it is founded between 2.50-4.49 which is weak but after the means increased up to 4.252631579 which is strong while standard deviation is heterogeneity which is vary between from 0.878128 before getting credit and 0.667934591 after getting credit.

### Hypothesis testing

#### Capacity to afford a balanced diet

t-Test: Paired Two Sample for Means

<i>Accessibility to electricity and potable water</i>	<i>after</i>	<i>before</i>
Mean	4.136842105	2.042105263
Variance	0.587458007	0.849272116
Observations	95	95
Pearson Correlation	0.669511091	
Hypothesized Mean Difference	0	
df	94	
t Stat	29.13947551	
P(T<=t) one-tail	3.69905E-49	
t Critical one-tail	1.661225856	
P(T<=t) two-tail	7.39811E-49	
t Critical two-tail	1.985523395	

Source: research results;2020

To know the capacity of respondents to afford a balanced diet after getting credit, the findings show that before getting credit the capacity to afford balanced diet is viable with the weak mean of 2.4210526 while after means is strong with the rate of 4.326315789 and with heterogeneity standard deviation of 0.9291834 before and 0.75006532 after getting credit.

### Hypothesis testing

	<i>after</i>	<i>before</i>
Mean	4.136842105	2.042105263
Variance	0.587458007	0.849272116
Observations	95	95
Pearson Correlation	0.669511091	
Hypothesized Mean Difference	0	
df	94	
t Stat	29.13947551	
P(T<=t) one-tail	3.69905E-49	
t Critical one-tail	1.661225856	
P(T<=t) two-tail	7.39811E-49	
t Critical two-tail	1.985523395	

**Source:** research results, July 2020

As it represented in the above table, the respondents have revealed the information that shows the access to potable water and electricity was not the same before and after getting loan. This is shown by a weak mean of 2.042105 and strong mean of 4.136842105 after getting credit and the heterogeneity standard deviation of 0.92156 and 0.766458092 before and after indicating that respondents have common understanding on the statement above. The researchers based on the statistics concluded that the loans have greatly improved the respondents' capacity.

## Hypothesis testing

### Ability to build new house

t-Test: Paired Two Sample for Means

	<i>before</i>	<i>after</i>
Mean	2.178947368	4.147368421
Variance	0.95699888	0.595072788
Observations	95	95
Pearson Correlation	0.443986096	
Hypothesized Mean Difference	0	
df	94	
t Stat	-20.42926207	
P(T<=t) one-tail	1.21157E-36	
t Critical one-tail	1.661225856	
P(T<=t) two-tail	2.42314E-36	
t Critical two-tail	1.985523395	

Source: research results; 2020

As presented in the above table explains that there is a very weak mean of 1.9052632 before getting credit and strong mean of 3.673684211 after getting credit and heterogeneity standard deviation of 0.799916 and 0.892547219 before and after getting credit.

t-Test: Paired Two Sample for Means

	<i>before</i>	<i>after</i>
Mean	311473.6842	161000
Variance	70848868981	2248191489
Observations	95	95
Pearson Correlation	-0.504229423	
Hypothesized Mean Difference	0	
df	94	
t Stat	5.006298002	
P(T<=t) one-tail	1.29261E-06	
t Critical one-tail	1.661225856	
P(T<=t) two-tail	2.58523E-06	
t Critical two-tail	1.985523395	

Source: research results;2020

As presented in the above table explains that there is a very strong mean of 311473.6842 before getting credit and becomes 161000 after getting credit and heterogeneity standard deviation of 70848868981 and 0.892547219 before and 2.248191489 after getting credit.

### Hypothesis testing

t-Test: Paired Two Sample for Means

	<i>before</i>	<i>after</i>
Mean	55410.52632	94631.57895
Variance	357223292.3	329384098.5
Observations	95	95
Pearson Correlation	0.756399968	
Hypothesized Mean Difference	0	
df	94	
t Stat	-29.52122553	
P(T<=t) one-tail	1.22614E-49	
t Critical one-tail	1.661225856	
P(T<=t) two-tail	2.45228E-49	
t Critical two-tail	1.985523395	

**Source: research results; 2020**

As it represented in the above table, the respondents have revealed the information that shows the capacity of saving before and after getting loan. This is shown by a strong mean of 55410.52632 and strong mean of 94631.57895 after getting credit and the heterogeneity standard deviation of 357223292.3 and 329384098.5 before and after indicating that respondents have common understanding on the statement above.

### CONCLUSION:

The effectiveness of loan offered by financial institutions where trend from 2016-2020 has been increased its credits where from 2016-2017 increment of credit was 22% in 2018 was 20% and 19% in 2019. This increase of loan granted resulted from strong management of loan. At the end of 2019 shows how the credit amount progressed from 2016 to 2019 the amount has raised step by step at the beginning, offered Rfw 385,824,570 to Rwf 678,005,885 from 2016 up to 2019, the progression in four years raised roughly 2.5 times. Whereas nonperforming loans were good

during our period of study 2016 to 2019, the normal ratio of NBR required to banks should not exceed In 2016 the ratio increase to 4.5% and 5.6% in 2017 also increased up to 4.9% in 2018 and 5.7% in 2019 which is better compare to the standard of NBR does not exceed 7%. economic status of bank of kigali' beneficiaries.

The access to potable water and electricity was not the same before and after getting loan. This is shown by a weak mean of 2.042105 and strong mean of 4.136842105 after getting credit and the heterogeneity standard deviation of 0.92156 and 0.766458092 before and after indicating that respondents have common understanding on the statement above. By testing hypothesis the the p-value from tailed sample mean and two tail has been used, degree of freedom (df)=94, and p-value(P)=1.98 and 1.66 ~two tail,one tail. The student statistical table that significant level is above 0.05 ( $p \geq 0.05$ ).thus implies that there is statistical difference between two sample means. This implies that there is change of social economic status of beneficiaries. Generally, the both research hypothesis of the study has been confirmed.

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