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Effect of Horizontal Foreign Direct Investment in the Banking Industry on Business Growth

(A Case Study of Equity Bank Rwanda Subsidiary)

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Abstract: **The purpose of this study was to examine the effect of horizontal foreign direct investment in the banking industry on the business growth of Rwanda a case of Equity bank Rwanda; one of the foreign subsidiaries in Rwanda. The objectives of the study included among others; to examine the effect of bank investment on business growth, to identify the influence of bank loans on business growth, to analyze the effects of bank technological services on business growth, and to ascertain the influence of loans on profitability. The researcher used a case study. The researcher used primary and secondary methods as sources of data for the research while the collected data were analyzed by editing, coding, tabulation and SPSS software. The target population were the business class customers of Equity bank Rwanda subsidiary taking a sample size of 189 customers. The sample size was arrived at using simple random sampling technique and the researcher used Slovin's formula [$n=N/1+N(e)^2$] to find the sample size. The formula is sometimes called Sloven's formula and was formulated by Slovin in 1960. In the findings, it was established that the respondents complained of limited Equity bank branches in different parts of the country. It was discovered that business loans had boasted the respondents' investments. Small businesses were highly preferred by the business customers. Some guidance on how to use the loan was given to the customers. It was discovered that high taxes were reducing the respondents' profits. Agent banking was operating in the cities and city suburbs but very rare in rural areas. There were few customers undertaking corporate businesses; interest rates on business loans were very high; there was limited use of credit cards, PoS and Telecos. The charges for a debit card at Equity bank Rwanda were very high compared to what other banks in Rwanda charged. The study recommended the following to both the bank and policy makers; increasing agent banking business in rural areas, introducing mobile banking to upcountry areas, opening up more branches and outlets in all parts of the country, advertising widely all Equity bank Rwanda technological services to the public, reducing the costs of using technological services and finally giving both local and foreign investors tax holidays as well as lowering taxes.**

Keywords: **Horizontal Foreign Direct Investment, Equity Bank Rwanda Subsidiary, Business Growth.**

1. INTRODUCTION

With the rise of globalization, worldwide FDI inflows increased dramatically. Over the time many countries liberalized their FDI policies to attract more FDI inflows (UNCTAD, 2006). The collapse of the Soviet Union and the open market oriented policies started to be followed by many developing countries such as China and India at that time and these have accelerated the pace of direct investments (UNCTAD statistics). According to the OECD (2002, P.5), "FDI triggers technology spillover, assists human capital formation, contributes to international trade integration, helps to create a more competitive business environment and enhances development". In this regard, FDI attracts host countries to expect that the positive effects of FDI outweigh the negative ones.

This research emphasizes the effect of horizontal Foreign Direct Investment (FDI) in the banking industry on business growth taking a case study of Equity bank Rwanda subsidiary. Foreign direct investment (FDI) is controlling ownership in a business enterprise in one country by an entity based in another country. FDI involves participation in management, joint-venture, transfer of technology and expertise. A direct investment typically takes the form of a foreign firm starting a subsidiary or taking over control of an existing firm in the country in question. FDI consists of equity capital, technical and managerial services, capital equipment and intermediate inputs and legal rights to be patented or secret products, processes or trademarks. It is the direct type of foreign investment which is associated with Multinational Corporations because most of FDI is transferred through firms and remains outside of ordinary functioning markets (Subbarao 2008 FDI and Human Capital Development)

The liberalization process of developing and transition countries in the 1980s and 1990s has been accompanied by an exponential increase in Foreign Direct Investment (FDI) inflows. The interest of developing countries in attracting FDI is based on the belief that FDI contributes importantly to the human development index and to the overall development of the host country.

Furthermore, FDI can contribute to poverty reduction in the long run through an economic growth impact, employment creation, wage pressure and increased tax revenues therefore, the effect is heterogeneous.

The end of the 20^{th} century has already marked a tremendous growth in international investments, trade and financial transactions along with the integration and openness of international markets. Countries of the world, particularly developing economies, are vying with each other to attract foreign capital to boost their domestic rates of investment and also to acquire new technology and managerial skills. Intense competition is taking place among the fund-starved less developed countries to lure foreign investors by offering repatriation facilities, tax concessions and other incentives. The Government of Rwanda resolved to improve the investment climate and attain desired levels of both local and foreign direct investment as a priority since 2011. The World Economic Forum's Global Competitiveness Report 2012- 2013 ranked Rwanda the 3rd easiest place to do business in Africa and 2nd five years Top Global Reformer after Georgia and the first in EAC.

The World Bank, (2009, 2010, 2011, 2012 doing business reports, highlighted the following reasons why investors have confidence in Rwanda and direct their investments to potential economic sectors with promising returns and the reasons to justify this confidence as per the world bank reports were as follows; good macroeconomic environment, good governance, investor friendly climate, access to markets, Rwanda is highly competitive, excellent business environment coupled with the third strongest regulatory framework in Sub-Saharan Africa. It also highlighted the following attractive sectors as the most untapped investments opportunities; financial services, infrastructure, agriculture, energy, tourism, information and communication technology, real estate and construction, and mining. [Business Monitor International, (2011), emerging markets monitor], Competitiveness Report (2011 – 2012); based on average ranking] and the World Bank, (2009, 2010, 2011, 2012 doing business reports]

The study concerns the effect of horizontal foreign direct investment in the banking industry on business growth and anchored on the responses from the business class customers of Equity Bank Rwanda subsidiary.

1.1 Problem Statement:

Previous studies such as by Olaf J. de Groot have focused their emphasis on foreign direct investment and welfare, foreign direct investment and economic growth by Maria Carkovic and Ross Levine. This has left an information gap on the effects of Horizontal Foreign Direct Investment in the banking industry on business growth. This encouraged the researcher to investigate the effects of horizontal foreign direct investment in the banking industry on business growth. This research therefore, critically assessed the effect of horizontal FDI in the banking industry on the business growth of Rwanda and took a case of Equity bank Rwanda subsidiary. This research was aimed at looking at how advantageous was horizontal foreign direct investments in the banking industry on the growth of businesses in Rwanda. It would inform the public and other stakeholders like the government among others on how foreign owned banks such as Equity among others have played an instrumental role in fueling Rwanda's business growth.

The problem to be investigated in this study, therefore, is the effect of horizontal foreign direct investment in the banking industry on business growth in Rwanda. The study took a case study of Equity bank Rwanda subsidiary covering a period of three years [2012-2014].

1.2 Objective of the study:

The objective of the study was two folds; general and specific objectives.

1.2.1 General objective:

The general objective of the study was to determine the effect of horizontal foreign direct investment in the banking industry on business growth in Rwanda.

1.2.2 Specific Objectives:

1. To examine the effect of bank investments on business growth;
2. To identify the influence of bank loans on business growth;
3. To analyze the effect of bank technological services on business growth;
4. To ascertain the influence of loans on profitability.

2. LITERATURE REVIEW

2.1 Introduction:

Under this chapter the researcher brought forth a critical review of the existing literature in relation to Foreign Direct Investment in the world and this was done in line with the specific objectives of the study. The study dealt with the theoretical framework, conceptual framework, foreign direct investments in Rwanda, factors that have attracted foreign direct investments, horizontal foreign direct investment, business growth anddevelopment**,** horizontal and vertical makeup of company, and summary of the existing literature

2.2 Theoretical Framework:

The first part of this chapter explains the theoretical framework that gives an insight of what is to be expected in the study based on various theories that were put forward by different scholars regarding Foreign Direct Investment. The second part of this chapter after conceptual framework details the work of earlier scholars who have studied various aspects of Foreign Direct Investment. Their findings are significant in identifying the knowledge gaps in the past research. It is important in the development of a suitable methodology to acquire substantial information to fill these gaps.

This research study was based on the following theories**;**

a) Production Cycle Theory of Vernon

b) The Theory of Exchange Rates on Imperfect Capital Markets

c) The Internalization Theory

d) The Eclectic Paradigm of Dunning

2.2.1 Production Cycle Theory of Vernon:

Production cycle theory was developed by Vernon in 1966 and was used to explain certain types of foreign direct investment made by the U.S companies in Western Europe after the Second World War in the manufacturing industry. This theory managed to explain certain types of investments in Western Europe made by the U.S. companies between ‘’1950-1970’’.

According to Vernon, each product has a certain life cycle that begins with its development and ends with its decline.

According to Vernon there are four stages in a product’s life cycle: “introduction”, “growth”, “maturity” and “decline”. The length of a stage varies for different products, one stage of the product life cycle may last some weeks while others even last decades in the first stage. The U.S transnational companies create new innovative products for local consumption and export the surplus in order to serve the foreign markets. According to the theory of the production cycle, after the Second World War in Europe had increased demand for manufactured products like those produced in the USA. Thus, American firms began to export, having the advantage of technology on international competitors.

In the first stage of the production cycle, manufacturers have an advantage of possessing new technologies, as the product develops also the technology becomes known. Manufacturers standardize the product, but there would be companies that it would copy thereby, European firms have started imitating American products that U.S firms were exporting to these countries. US companies were forced to perform production facilities on the local markets to maintain their market shares in those areas.

2.2.2. The Theory of Exchange Rates on Imperfect Capital Markets:

This is another theory which tried to explain Foreign Direct Investment. This theory examines the connection between exchange rates and foreign direct investment that arises when globally integrated capital markets are subject to informational imperfections. These imperfections cause external financing to be more expensive than internal financing, so that changes in wealth translate into changes in the demand for direct investment. By systematically lowering the relative wealth of domestic agents, a depreciation of the domestic currency can lead to foreign acquisitions of certain domestic assets.

Initially the foreign exchange risk has been analyzed from the perspective of international trade. Itagaki (1981) and Cushman (1985) analyzed the influence of uncertainty as a factor of FDI. In the only empirical analysis made so far, Cushman shows that real exchange rate increase stimulated FDI made by USD, while a foreign currency appreciation had reduced American FDI.

Cushman concludes that the dollar appreciation had led to a reduction in U.S FDI by 25%. However, currency risk rate theory cannot explain simultaneous foreign direct investment between countries with different currencies. The sustainers argue that such investments are made in different times, but there are enough cases that contradict these claims.

2.2.3. The Internalization Theory:

The internalization theory of foreign direct investment is tested by comparing gains from foreign direct investment (FDI) and non-FDI modes of expansion. The proponents of internalization theory argue that FD1 modes of expansion are better since the risk of dissemination of information monopoly is less when firms expand using these modes.

This theory tries to explain the growth of TNCs and their motivations for achieving foreign direct investment. The theory was developed by Buckley and Casson in 1976 and then by Hennart, in 1982 and Casson, in 1983. Initially, the theory was launched by Coase in 1937 in a national context and Hymer in 1976 in an international context. In his Doctoral Dissertation, Hymer identified two major determinants of FDI. One was the removal of competition. The other was the advantages which some firms possess in a particular activity (Hymer, 1976).

Buckley and Casson, who founded the theory demonstrates that TNCs are organizing their internal activities so as to develop specific advantages, which are to be exploited. Internalization theory is considered very important also by Dunning, who uses it in the eclectic theory, but also argues that this explains only part of FDI flows.

Hennart (1982) develops the idea of internalization by developing models between the two types of integration; vertical and horizontal.

Hymer is the author of the concept of firm-specific advantages and demonstrates that FDI takes place only if the benefits of exploiting firm-specific advantages outweigh the relative costs of the operations abroad. According to Hymer (1976) the MNE appears due to the market imperfections that led to a divergence from perfect competition in the final product market. Hymer has discussed the problem of information costs for foreign firms respected to local firms, different treatment of governments, currency risk (Eden and Miller, 2004). The result meant the same conclusion transnational companies face some adjustment costs when the investments are made abroad. Hymer recognized that FDI is a firm-level strategy decision rather than a capital-market financial decision.

2.2.4. The Eclectic Paradigm of Dunning:

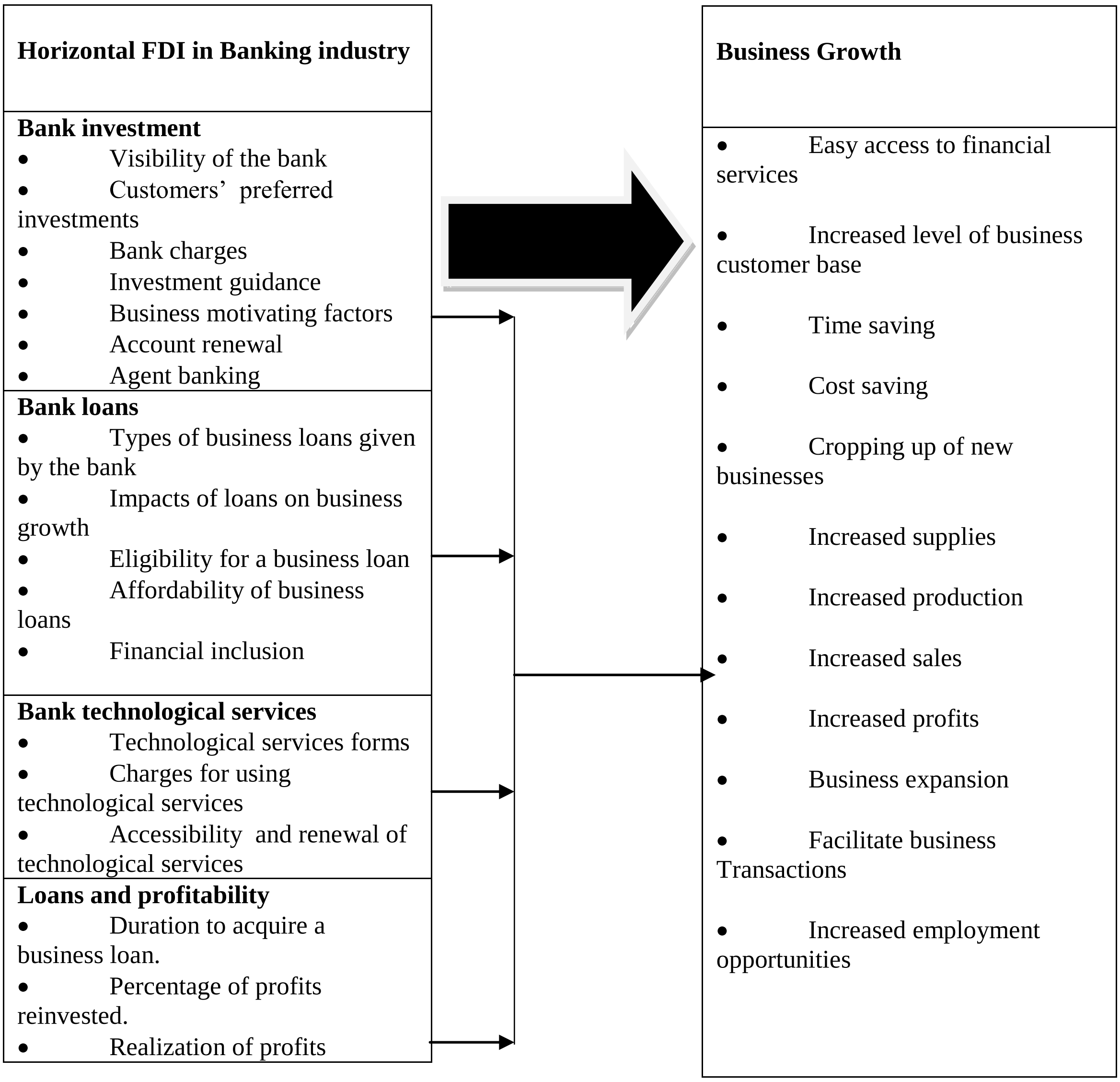
The eclectic theory was developed by professor Dunning. This theory is a mix of three different theories of direct foreign investments. It is a theory that provides a three-tiered framework for a company to follow when determining if it is beneficial to pursue direct foreign investment. The eclectic theory paradigm is based on the assumption that institutions will avoid transactions in the open market when internal transactions carry lower costs.

“O” from Ownership advantages.

2.3. Conceptual Framework:

Fig One: Conceptual framework. It shows the relationship between the independent and dependent variables. A conceptualization of the relationship between the independent variables, and the dependent variable is illustrated in the figure below.

Independent Variable **Dependent Variable**



2.4 Foreign Direct Investments in Rwanda:

With the objective of complementing internal resources, Rwanda has actively attracted FDI by creating and sustaining a high conducive investment climate through important rapid reforms which made and still make it easier for businesses to get started, get loans, and pay taxes, among many others. A whole package for investment promotion was put in place and Rwanda Development Board was mandated to take charge of it. The package for investment promotion includes among others: regulatory framework, registration facilities and requirements, change of registered businesses, closing businesses, disclosure requirements, and other facilities such as working permit, government's protection of investments, settlement of disputes, transfer of funds, special economic zone facilitations, public private partnership (PPP) where RDB is chief negotiator between public and private sectors among many other foreign investor eye catching incentives .

The World Economic Forum's Global Competitiveness Report 2013- 2014 ranked Rwanda the 2nd easiest place to do business in Sub-Saharan Africa. The table below shows how Rwanda ranked across 11 indicators of doing business compared to other African countries for the Year 2013-2014.

Table.2.1: Top Ten Countries in Doing Business in Sub-Saharan Africa 2013-2014

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency	Total	Rank
Mauritius	20	2	22	1	7	7	2	1	1	7	2	**72**	1
Rwanda	32	1	14	2	1	1	3	3	31	2	22	**112**	2
South Africa	41	7	1	27	15	5	1	4	7	12	8	**128**	3
Botswana	56	12	11	13	2	11	7	6	23	14	1	**156**	4
Ghana	67	20	37	6	4	5	5	9	8	4	16	**181**	5
Seychelles	80	16	10	25	9	40	9	2	2	13	3	**209**	6
Zambia	83	6	7	29	17	1	12	9	32	20	5	**221**	7
Namibia	98	23	2	4	43	9	12	18	20	10	9	**248**	8
Cape Verde	121	8	28	28	6	14	24	11	4	1	38	**283**	9
Swaziland	123	39	5	34	24	9	21	7	13	41	4	**320**	10

Source: World Bank Doing Business Report 2013-2014

During the period under review, Rwanda eased access to construction permits by passing new building regulations and implementing new time limits for the issuance of various permits.

Access to credit was enhanced by allowing banks the right to inspect borrowers' credit situation and mandating that loans of all sizes be reported to the central bank's public credit registry. In addition, Rwanda reduced the number of trade documents required and enhanced its joint border management procedures with her neighbors, leading to an improvement in the trade logistics.

2.4.1 Factors that have attracted foreign direct investments in Rwanda:

Good macroeconomic environment. Rwanda enjoyed a year-on-year average real GDP growth rate of 8.1 percent between 2007 – 2012, among the highest in major African economies and neighboring countries, a moderate inflation of one digit and stable exchange rate.

Good governance. The country is politically stable with well-functioning institutions, rule of law and zero tolerance for corruption, clear vision for growth through private investment support and development

Investor friendly climate World Bank Doing Business Report 2013 ranked Rwanda the 2nd top global reformer for six consecutive years and 3rd easiest place to do business in Africa. It is among the best competitive place to do business in Africa and 1st in East African Community. On credit ranking by Fitch in 2012-2013, Rwanda was upgraded to B. Rwanda is among top 4 African countries in terms of internet connectivity according to Oracle in 2012.

Access to markets. Rwanda is a Market of 10.5 million people with a rapidly growing middle class. It is located centrally bordering with 3 countries in East Africa and the huge market of Democratic Republic of Congo. The country adhered to EAC Common Market and Customs Union with market potential of over 125 million people with all trade facilities the EAC bloc offers.

Untapped investments opportunities Potential investment opportunities abound, particularly in the following sectors: -Infrastructure: Opportunities in rail, air, water transportation to further develop Rwanda as an EAC hub; Agriculture: Potential for agriculture productivity growth and value addition; -Energy: Power generation, off grid generation and significant methane gas opportunities; - Tourism: Unique assets creating booming sector, growth potential in birding & business/conference tourism - Information and Communication Technology: Priority sector for Vision 2020; new ICT Park to be developed. - Other attractive sectors include real estate and construction, financial services and mining.

Rwanda is Highly Competitive. Rwanda is now the third most competitive country in Sub-Saharan Africa after Mauritius and South Africa Globally, Rwanda is in the upper half of the WEF's Global Competitiveness Index after jumping 10 places, ahead of many historically stronger countries in Europe and America.

Excellent Business Environment Rwanda has the third strongest regulatory framework in Sub-Saharan Africa, only slightly behind South Africa and is ranked 8th globally by the World Bank doing business report in starting a business. [RDB, 2013]

2.5 Horizontal Foreign Direct Investment:

Horizontalarises when a firm duplicates its home country-based activities at the same value chain stage in a host countrythrough FDI Horizontal multinationals firms produce the same good or services in multiple plants in different countries, where each plant serves the local market from the local production. Two factors are important for the appearance of horizontal FDI. Presence of positive trade costs and firm-level scale economies The main motivation for horizontal FDI is to avoid transportation costs or to get access to a foreign market which can only be served locally. The models of horizontal FDI predict, that given the existence of trade costs and economies of scale at plant and firm level, investment flows can arise between similar countries.

The findings according to Markusen, James R from the models of horizontal FDI can explain a variety of features of FDI flows. First, horizontal FDI reduces trade flows, since the market is served through local production instead of exports. Second, horizontal FDI takes place if the costs of importing are high relative to costs of investing. Third, horizontal FDI is more likely to occur in large foreign markets, which allows to spread fixed costs for the new plant over a large volume of production. Finally, the value of local production may exceed the simple calculation of net costs from the described trade-off, when establishing a local production plant may have a strategic value. Markusen, James R., Venables, Anthony J., Konan, Denise E., Zhang, Kevin H., (1996)

2.6 Business Growth vs Development:

Business growth is an extension at the same level for instance another hotel is added to a hotel chain while business development is movements to a higher level for example a hotel chain that decides to cater specifically the Internet traveler, or one that suddenly gives priority to the needs of its employees. Business growth is horizontal extension while business development is a vertical evolution. [Penrose E.T (1959)]

2.6.1 Horizontal and Vertical Makeup of Company:

Horizontally a company is made up of its five components; market, technology (products and services), organization, people, and finance. These are the engines of growth. The fuel and energy for growth is its vertical aspect which begins with top management's values, mission, values, and goals, which are communicated and executed down throughout the organization by knowledgeable and skilled people. [Penrose E.T (1959)]

2.7 Summary of the Existing Literature:

It presented previous literatures on FDI. It explicitly looked at theoretical framework, historical development of attitudes towards FDI, factors affecting the amount of foreign direct investment, determinants of foreign direct investment, business growth and development, horizontal and vertical makeup of company, factors that determine a company's development, five growth engines, and a list of financial services available in Rwanda. Lastly, the researcher points out the gap analysis, and the conceptual framework of the study. This involved gathering information from relevant textbooks and internet. It also entailed visiting the banking industry and its customers for data that could be used to build up the case for this study.

3. RESEARCH METHODOLOGY

3.1 Introduction:

The purpose of this chapter was to present the methodological approaches and techniques that were employed in the process of collecting data.

3.2 Research Design:

The researcher used a case study. He took Equity Bank Rwanda subsidiary as his case study by interviewing selected Equity business class customers around the country about the effects of Equity bank on their business growth and was observing the customers' businesses physically. The researcher after getting permission to use Equity bank Rwanda subsidiary as his case study, requested for a list of business class customers with their contacts from the credit department at the head office. He used the formula below to determine the sample size from the provided list. He therefore called the selected business class customers, introduced himself to them and requested to visit them at their business locations.

3.3 Target population:

Equity Bank Rwanda subsidiary business class customers were 189 after using sampling technique in **3.4.1** below;

3.4 Sampling method:

The researcher used simple random sampling method. The population was so big and homogenous and targeted those customers who were engaged in businesses. The researcher inquired from the credit department for a list of customers who took business loans, visited and subjected them to the questionnaire.

3.4.1 Simple random sampling technique:

Equity bank Rwanda had **357** business class customers in total but due to lack of enough time and financial constraints, the researcher made a sample size to be able to conduct his research work. Sample size cannot be taken randomly. It is the real result of calculation. He used Slovin's formula [$\mathbf{n=N/1+N(e)^2}$] to arrive at the sample size. The formula is sometimes written as Sloven's formula and was formulated by Slovin in 1960.

Whereby;

n= Sample size Corrected

N=Population size

e=Standard error

e=0.05

$n = (357)/(1+357(0.05)^2 = 357/1.9 = 189$ Customers (Respondents)

n= 189 business class customers

3.5 Data Collection Methods:

3.5.1 Primary Research:

This captured original responses from the respondents and involved use of a questionnaire.

3.5.2 Secondary Research:

This was information about foreign direct investments, banking and business growth that already exists somewhere for example in libraries, relevant text books, internet, annual reports, global reports among others.

3.6 Data Analysis Methods:

The researcher used the following methods to analyze the data to meet all his objectives.

3.6.1 SPSS:

Collected data from the respondents on the effect of horizontal foreign direct investment in the banking industry on business growth was processed and analyzed using SPSS software. 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 and quantitative approaches were used for analysis.

4. FINDINGS AND DISCUSSIONS

4.1. Introduction:

This chapter presents information on the findings of the study using descriptive and qualitative data. The purpose of this study was to determine the effect of horizontal foreign direct investment in the banking industry on business growth in Rwanda. This chapter is concerned with the analysis of the research findings and discussion of the collected data. It starts with the response rate and provides findings according to the following study objectives;

a) To examine the effects of equity bank investment on business growth;

b) To identify the influence of bank loans on business growth;

c) To analyze the effects of technological services on business growth;

d) To ascertain the influence of loans on profitability.

4.2. Research Findings:

The researcher used both primary and secondary data. Primary data was used where secondary data seemed not to be working. Secondary data was employed where published documents were available. Primary data was used in this chapter and involved use of a questionnaire that was distributed to the business class customers of Equity bank Rwanda to provide their feedback in as far as the effect of horizontal foreign direct investments in the banking industry on their business growth is concerned. Secondary data was used where theoretical literature such as theories and empirical literature like studies where applicable. Secondary data was used for the larger part of chapter two and for the smaller part of chapter one. For purposes of proper analysis and interpretation of the data, the researcher used frequency, percentages, tables, figures, SPSS, and bar graphs.

4.2.1 Findings on the effects of equity bank investment on business growth:

Regarding how Equity Bank investments have boasted economic growth, the respondents who filled the research instrument were very happy with Equity Bank investments. They all agreed that Equity bank investments had helped them to strongly boast their businesses thus accelerating businesses' growth. They said that the business loans they secured from the bank to finance their investments had improved and widened their investments in terms of net profits acquired, capital accumulation and ultimately business growth since they were using the investment returns to expand and open up newer investments in different parts of the country.

On the question of the kind of investments that are funded by Equity bank Rwanda, the respondents said that the bank provides loans for small businesses, construction, asset financing and plot financing. They were very appreciative to the bank. They said that Equity bank Rwanda unlike other foreign banks had extended its financial support generously to most of their investments and they were very optimistic that if all other foreign direct investments in the banking industry could emulate her and widen their financial support to the Rwandan business community as equity does, it would aid them to swift their businesses thus rapid business growth.

Regarding the investments that customers preferred most, the respondents preferred small businesses to corporate businesses. They said small businesses are easy to start and they do not require much capital and experience to start like the corporate ones. They are easy to manage by young and emerging entrepreneurs. Small businesses yield quicker returns than the corporate ones.

On the question of whether customers were given guidance before undertaking any investments, customers said they received such guidance before the bank extended its financial support to their businesses and commended the bank for being supportive to them during the startup phase of their businesses and during the implementation phase through continuous follow ups of their investments. They said that the bank assesses their investments to see if they are among those that the bank supports and if they would be viable if given adequate funding. They also applauded the bank on this because of the experienced investment analysts it has. These help them to scrutinize their businesses beforehand and advise them on the best way to propel them to greater heights.

The respondents acknowledged the following factors for having favored their investments and these included among others; favorable political will through government policy of encouraging her people to be job creators rather than job seekers. Business Development Forum was established to support SMEs in form of on and off farm credit guarantee, lines of credit, matching grants as well as advisory services. BDF Ltd helps individual clients, start up small and medium sized companies, associations, cooperatives, MFIs and profit oriented NGOs to build value. This is evident through spreading investment information and incentives such as free savings and investment trainings and sensitization of the public to work with the financial institutions among others. They said this had spread the zeal and need to do businesses in Rwanda thus boasting up business growth. This had further encouraged them to start small medium sized enterprises. These businesses require capital which is supplemented by business loans they got from foreign bank. However, some respondents complained of high taxes that ruin their profits and thus retards their business expansion.

Tables.4.1: Maximum amount of money that can be withdrawn at agent banking

	Frequency	Percent	Test statistics [a]	
Between 5000-1000000	38	20.1	N Chi-Square	189 67.561[a]
Depend on requests	151	79.9	df	1
Total	**189**	**100.0**	Asymp. Sig.	.000

As indicated in the table above, p-value=0.000 is less than α=0.05 thus, the test is highly significant to explain the maximum amount of money that can be withdrawn at agent banking, for that the hypothesis is accepted.

The tables above shows the distribution of the respondents with regard to the maximum amount of money that can be withdrawn at agent banking. 80% of the respondents said that the quantity of money that can be withdrawn at agent banking depends on the amount of money requested for and the location of the agent. They said that urban agents who are stationed near a big supermarket or equity bank branch can allow customers access to their money without any limit. They reasoned that if the customer requests for a specific amount of money which the agent does not have, the agent can get a top up from the nearby supermarket or equity branch. However, 20% of the respondents said that the requested amount is always between 5,000 Rfw and 1,000,000 Rfw. Some of the business class had also invested in agent banking as a small business and were profoundly benefiting from it and part of the profits that they were making were being reinvested into other small businesses. This trend means that Agent Banking has played an instrumental role in accelerating business transactions among the business class and their customers on a timely daily business basis thus foreign direct investment in banking industry fueling up business growth.

Tables.4.2: Location of Agent Banking

Location	Freq	%
City	113	60
Rural areas	76	40
In all parts	0	0
Total	**189**	**100**

Table 4.2 relates to the location of agent banking. 60% of the respondents said that agent banking is evident in the city while 40% of the respondents confirmed agent banking's presence in the rural areas. This trend therefore calls for the widespread of enough agent banking to all parts of the country so that business owners can timely be facilitated to carry out their businesses on a daily basis.

4.2.2 Findings on the influence of bank loans on business growth:

Table.4.3: Types of business loans preferred by majority of the business class customers.

	Frequency	Percent	Test statistics [a]	
Micro business loan	132	69.8	N Chi-Square	189 29.762[a]
Corporate loan	57	30.2	df	1
Total	**189**	**100.0**	Asymp. Sig.	.000

As indicated in the table above, p-value=0.000 and is less than α=0.05. Thus, the test is highly significant to explain the types of business loans preferred by majority of the Rwandan business class, for that matter the hypothesis is accepted.

Table 4.3 concerns the types of business loans preferred by majority of the Rwandan business class customers at Equity bank. Majority of the respondents took micro business loans and these were at 70% followed by those who took corporate loans at 30%. This implies that customers preferred small businesses to corporate ones because these require little funding and are easy to mitigate their risks compared to corporate businesses. Most of the business community can easily manage to have the startup capital as a basis to request for a loan from Equity to implement their business ideas. On the other hand, the percentage of those who said to have taken corporate loans taken was lower because these require a lot of business intelligence and deep analysis to minimize risks. They said that they had to present a bank statement for the last six months as one of the requirements for a corporate loan. This is in addition to the evaluation of the company business plan.

On the question of the maximum Equiloans available for customers, all the respondents who responded to the research instrument said that the amount of Equiloans one qualifies for depends on his or her monthly salary. However, they categorically made it clear that they were told that equiloans and personal loans are consumer loans but not business loans. They said that the higher the salary the higher the amount of equiloans one can qualify for. This had helped to supplement their existing small capital thus boasting the commencement of more new small businesses.

Regarding the minimum amount of loan for a corporate loan and micro business loan All the respondents said that their request was analyzed depending on the nature and size of the business they were intending to run and the risks associated with it while for a personal loan, they said it is as a consumer loan and depends on their monthly salary.

The influence of loans on business growth was emphasized by the respondents. They said that bank loans had enabled them to either buy or build a house for their families or for rental income. Some of the respondents the researcher interacted with rent the houses they built on loans and this earns them an extra income. They had decided to use corporate loans to put up commercial estates which are sold at a return. They also own fixed and current assets such as cars, furniture, stock among others which they got using bank loans. Some of these assets could be used as collateral security for more bank loans thus increasing their capital which is either injected in their existing investments or used to open up more new investments in dissimilar parts of the country thus fueling up business growth.

Pertaining to the requirements that they were requested to have to be eligible for a business loan at equity bank. The respondents had no complaints about the requirements they mentioned them and were happy with them. These requirements according to the respondents range from among others; having an active account at Equity bank They said that they were required to have had some regular movements on their account. Secondly, there were required to present collateral security depending on the business one wished to do or to invest in. The business must therefore, be registered and running for at least six months. They also testified that the loans were affordable depending on one’s capacity to pay back and they sent the loan applications to the credit department which called them for further information and discussion.

The interest rate for micro business loans according to the respondents was 18% per annum while for corporate loans was 20% but others said they got it at 18% which means that it is negotiable depending on the nature and size of business as well as the borrower’s ability to negotiate the rate.

Concerning the duration an account holder was eligible for either a macro business loan or a corporate loan. 80% of the respondents said that they were required to have had an active account running from one month to five months to qualify for either a micro business loan or a corporate loan. 20% of the respondents said they got a micro business loan immediately after opening up an account at Equity bank and so were for corporate loans.

4.2.3 Findings on the effects of bank technological services on business growth:

Regarding the technological services that are offered by Equity bank Rwanda, all the respondents exhibited enough knowledge to have used debit cards, while a few of them used credit cards, PoS, telecos and AutoBranch MasterCard. This limited use of Credit cards, PoS and Telecos by majority of the respondents was attributed to limited understanding on their use and existence. They also used other technological services such as western union and money gram to send and receive money to and from their counterparts. Respondents said that AutoBranch Visa Card enables them to withdraw and deposit cash through ATMs, Point of Sale machines and Equity agents, was used to pay for goods and services at supermarkets, fuel stations, hotels, restaurants and shops. It also enabled them to pay utility bills through the ATM, accessed information and services from bank account and helped them to access temporary overdraft facilities.

The cost of a debit card according to the respondents was 5,000 Rfw and 180 Rfw was deducted on every withdrawal made while for credit card, they said they were told that it depends on how much was to be credited on one’s card because it’s a loan in advance. The charges for accessing the point of sale (PoS) according to the respondents, was 75,000 Rfw while for telecos, they were using it at a zero cost. However, most respondents did not know that they were charged for using debit card and telecos. Those who knew complained of being over charged especially on debit card. Currently, 180 Rfw is charged from the customer for a single withdrawal and this is too much compared to what other local banks such as Bank of Kigali among others charge. Bank of Kigali charges only 50 Rfw per withdrawal. However, Equity bank is unique in its operations because it does not charge monthly bank charges like other banks do and this to the customers is a plus. It was also noted that it is only equity bank where one applies for a debit card and gets it immediately.

Tables.4.4: When to get a credit card

When to get a credit card	Frequency	Percent	Test Statistics	
After requesting for it	142	75.1	N	189
Between two months and six months	18	9.5	Chi-Square	29.762[a]
Non	29	15.3	df	1
Total	**189**	**100.0**	Asymp. Sig.	.000

As indicated in the table above, p-value=0.000 and is less than α=0.05. Thus, the test is highly significant to explain when one could get a credit card, and for that the hypothesis is accepted.

The above table relates to the period when a respondent at equity bank is eligible for a credit card. 75% of the business class customers said that they got a credit card immediately after requesting for it. While 10% said they got it after holding an Equity bank account between two to six months. 15% of business customers showed ignorance about what a credit card is since they told the researcher that they will have to find out what it is from the bank. Concerning the expiration period of a credit card, 85% of the respondents who use it said it expires after a year while others demonstrated ignorance about its expiry period since they had just gotten it. There is need for all business customers to be encouraged to use credit card to ease their financial transactions. This requires the bank to sensitize its customers about the use of technological services in speeding up their investments.

Tables.4.5: When to get a debit card

When to get a debit card	Frequency	Percent		Test Statistics
After opening up an account	189	100.0	N Chi-Square df Asymp. Sig.	189 149.556[a] 2 .000

As indicated in the table above, p-value=0.000 and is less than α=0.05. Thus, the test is highly significant to explain when to get a credit card, for that matter the hypothesis is accepted

The above table pertains to when one is entitled to a debit card. All the respondents were found to be in possession of a debit card. They said that they got it immediately after opening up an account at Equity. They said that it took them half a day to get it. They applauded it because it helped them to access their money twenty four hours a day, seven days a week and this saves them time and simplifies life during business transactions such as urgent payments, withdrawals and depositing thus technological services facilitating business growth. Concerning the timeline when a debit card expires, the respondents said it lasts for three years and is renewed after expiry at a cost. They were however, very unhappy with the expiry of their debit card. They were of the view that it should not expire because their accounts do not expire and so should their cards be.

Tables.4.6: Impacts of technological services on business growth

	Frequency	Percent	Test Statistics	
They have had impacts on business growth	151	79.9	N	189
They have not had impacts on business growth	38	20.1	Chi-Square	67.561[a]
Total	**189**	**100.0**	df	1
			Asymp. Sig.	.000

As indicated in the table above, p-value=0.000 and is less than α=0.05. Thus, the test is highly significant to explain the impacts of technological services on business growth, and for that reason the hypothesis is accepted.

Table 4.6 talks about the impacts of technological services on business growth. 80% of the respondents agreed that technological services had a remarkable visible impacts on their businesses growth. Business class customers said that technological services such as debit cards, credit cards and AutoBranch Visa Card had allowed them access to their money and financial services any time of the day and they are very safe and fast. The business class customers said AutoBranch Visa Card enables them to pay for goods and services at merchant outlets such as supermarkets, fuel stations, hotels, restaurants and shops. Respondents said that they also use the AutoBranch Visa Card to withdraw cash through ATMs and Point of Sale machines; deposit cash through ATMs and Equity agents; pay utility bills through ATM; access information and services from bank account and access temporary overdraft facility. As the English adage says that, “time is money”, they commended them because they help them speed up business maneuvers in a fast timely manner leading to more profits which are reinvested thus speeding up business growth. The remaining 20% of the respondents said that technological services hadn’t had any tangible impacts on their businesses. They stressed that they would have benefited from them if there were enough equity bank branches in all parts of Rwanda where their businesses are located. They said that these technological services benefit only business people in cities where Equity bank branches are accessible. Debit card is the technological service that is widely used in Rwanda. They said it is easy to use and saves them time. It is cheap and most convenient compared to other technological services. A customer gets it the day he opens up an account number at Equity bank. It can be used on all other banks automatic teller machines both local and regional.

4.2.4 Findings on the influence of loans on profitability:

Concerning whether there are business customers who took business loans and the type of business loans taken The researcher found out that most of the respondents took micro business loans and a few of them took corporate loans. Those who took micro business loans gave reasons for their preference. They had low income which left them with inadequate capital to do larger businesses. Micro businesses were easy to start unlike the corporate ones which required financial statements of at least half a year. They said that they didn’t require much capital before the bank tops up the principal. They were easy to understand by the beginners. Small businesses were also easy to run and they did not require a lot of man power. They said that the risks associated with small businesses were cheaper compared to those encountered by corporate loans. On the other hand, they said that those who took corporate loans were mainly wealthy people with larger businesses and adequate fixed assets. They used them to build larger tall commercial buildings in the city and other larger businesses that employ many people. Most them had been in the business for years and decades and had a wealthy of experience.

Tables.4.7: When loans increase profitability

	Frequency	**Percent**	**Test Statistics**	
Daily	2	1.1	N	189
Weekly	8	4.2	Chi-Square	326.841[a]
Monthly	120	63.5	df	5
Fortnightly	9	4.8	Asymp. Sig.	.000
Quarterly	40	21.2		
Semiannually	10	5.3		
Total	**189**	**100.0**		

As indicated in the table above, p-value=0.000 and is less than α=0.05 thus, the test is highly significant to explain when loans increase profitability, for that reason the hypothesis is accepted.

Table 4.7, investigates whether loans had earned the respondents profits and the period when profits were realized. They all agreed that the loans helped them to increase their profits. They increased their working capital leading to much more cash flows and thus more profits. They reported in the questionnaire that net profits had increased their income levels. Most of them were able to realize profits on a monthly basis while others they got them on a quarterly basis. It’s because of the profits they could harvest that they were able to continue with their businesses and pay back the loan on time.

Tables.4.8: Percentage of profits realization

	Frequency	Percent	Test Statistics	
Between 5% and 10%	29	15.3	N	189
Between 10% and 20%	50	26.5	Chi-Square	95.466[a]
Between 20% and 30%	100	52.9	df	3
Between 30% and above	10	5.3	Asymp. Sig.	.000
Total	**189**	**100.0**		

As indicated in the table above, p-value=0.000 and is less than α=0.05. Thus, the test is highly significant to explain the percentage of profits realization, therefore this implies that the hypothesis is accepted.

The above table look at the percentage of profits making. Most of the business class customers said that their profits were between 20% and 30% but they were optimistic to make more profits above 30%. They justified their ability to make more profits by increasing vigilance in their investments through strict supervision to minimize losses as well as identifying more virgin areas for investments. They would reinvest between 30% and 50% of their profits to expand their businesses. Those whose profits were below 20% attributed their performance to stiff competition and huge taxes but were very hopeful to be more innovative and creative to be able to outcompete their competitors. Because of inadequate profits made, they would reinvest between 5% and 10% of the total profits.

Table.4.9: Period taken to get a micro business loan when a customer applied for it.

	Frequency	Percent	Test Statistics	
Fortnight	50	26.5	N	189
Three weeks	109	57.7	Chi-Square	53.556[a]
A month	30	15.9	df	2
Total	**189**	**100.0**	Asymp. Sig.	.000

As indicated in the table above, p-value=0.000 and is less than α=0.05. Thus, the test is highly significant to explain the period taken to get a micro business loan when one applies for it, and for that reason the hypothesis is accepted.

Table 4.9 above concerns the period one has to wait for feedback after handing in an application for micro business loans. Majority of the respondents said it took them three weeks to get feedback from the bank. They applied but waited for three weeks to be cleared. They were called at the beginning of week two for a brief discussion about their application and in the same week a field visit to their business location was conducted. However, for some few respondents it took them two weeks to secure micro business loans from the bank while for others, it took them a month to secure it.

Table.4.10: Period it took a customer to get a corporate loan after applying for it.

Period it took to get a corporate loan when a customer applied for it				
	Frequency	**Percent**	**Test Statistics**	
Fortnight	30	15.9	N	189
Three weeks	129	68.3	Chi-Square	103.714[a]
A month	30	15.9	df	2
Total	**189**	**100.0**	Asymp. Sig.	.000

As indicated in the table above, p-value=0.000 and is less than α=0.05. Thus, the test is highly significant to explain the period it took the respondents to get a corporate loan when one applied for it, for that reason the hypothesis is accepted.

Table 4.10 above concerns the period the respondents had to wait for feedback after handing in an application for a corporate loan. Majority of the respondents like it is for micro business loans, said it took them three weeks to get it. They applied but had to wait for three weeks to be cleared. They were called at the beginning of week two for a brief discussion about their business and in the same week a field visit to their business location was conducted. However, for some few respondents it took them a fortnight and month to secure a corporate loan from the bank.

4.3 Discussion of the Findings:

The researcher after analyzing the data found out that some findings agreed with the specific literature reviewed in chapter two of this study.

It was realized that government's positive political will had played an instrumental role in favoring horizontal foreign direct investments in Rwanda's banking industry for instance, the government of Rwanda had encouraged her population to embrace saving culture and to work with both local and foreign banks to beef up their financial muscles. Foreign investors had also been urged to invest in Rwanda. The government through its political leaders such as His Excellency Paul Kagame and several others are on several occasions in and out of the country sweat talking foreign investors to bring their investments to Rwanda. This had also been eased by shortening business registration period where registration of a foreign business in Rwanda according to the Rwanda Development Board is at a zero cost and takes only six hours to get a registration certificate. Overseas investors were offered the same opportunities and services as local investors. Overseas investors were particularly most welcomed to participate in the continued growth of the Rwandan economy. This has triggered opening up of different foreign financial subsidiaries in the banking sector in Rwanda such as Equity Rwanda, I&M, Ecobank, GT bank, Cranes bank among others. This finding is in line with the determinants of foreign direct investment exhibited under literature review.

The findings also revealed that horizontal FDI in the banking industry had boasted business growth where businesses had spread to other parts of the country. People had invested the loans they secured from the bank into new businesses in different parts of the country and had reinvested the accrued returns into the expansion of their businesses. The loans had helped them to ameliorate and widen their businesses in terms of profits acquired, and capital accumulation thus facilitating business growth. This finding is in line with what Penrose (1959) said about business growth as an extension of the business under literature review.

The findings showed that Equity bank Rwanda had tried to apply the five growth engines such as market, technology, organization, people and finance as advocated for by Scott, M. and Bruce, R (1987); Churchill, Lewis 1983. For instance, the bank's organization culture valued its customers, enhanced performance and attitude of its staff towards its customers and supported the business. This was grounded on seven core values namely; professionalism, integrity, creativity, teamwork, unity of purpose, respect and dignity for customers and effective corporate governance. Its public motto is listening and caring of its customers. Its employees had the required energies, abilities, skills, and attitudes to serve the bank and this had in one way or the other encouraged the public to join the bank as customers. The bank had quality financial systems and skills for accounting, budgeting and financial management, cash and credit management, control over purchasing and inventory, and access to capital. These five growth engines had enabled the bank to carefully analyze customers' requests for loans and offer timely due guidance to its business class customers.

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction:

This chapter presents a summary of the major findings of the study on the effect of horizontal foreign direct investments in the banking industry on business growth a case study of Equity bank Rwanda subsidiary for the last three years and these were 2012, 2013, and 2014. The study used a descriptive research design and the researcher had Equity bank Rwanda subsidiary as his case study, used a survey and an observation. An investigation was conducted on 189 business loan beneficiaries who filled the questionnaire. The total number of business class customers who had gotten business loans from Equity bank Rwanda were 357. The researcher scaled down this number using Slovin's formula [$n=N/1+N(e)^2$] and this brought down the number of respondents to 189. This chapter also came up with the conclusions from the study and later proposed recommendations from the conclusions.

5.2 Summary:

The researcher gathered the major findings by using a questionnaire, and conducted physical field visits to the business locations to observe the respondents businesses. He got the respondents contacts from the subsidiary's credit department and started calling one by one. This made it easy for him to take the research instrument to where the respondents businesses were located and to have a direct observation and interaction with them. According to the research findings from this study that were analyzed using frequencies, percentages, tables, SPSS and bar graphs**,** the followingconclusions were drawn from the study findings.

5.2.1 Visibility of Equity Bank in Rwanda:

The respondents complained of limited equity bank branches in different parts of the country. They were available in cities and some towns and yet agent banking was also not evident enough in the rural areas.

5.2.2 Investments that customers requested for funding from Equity Bank Rwanda:

They requested for loans for small and corporate businesses as their top priority investments. It was discovered that business loans had boasted the respondents' investments and their net profits had increased further and this increased their capital base. This increase in capital resulted into expansion of their investments and cropping up of more new ones thus increased employment opportunities and widening of the government tax base. The loans for small businesses were used to buy business current and fixed assets that were also reported to be used to expand the business and investment returns.

5.2.3 Investments preferred by customers:

The study found out that the investments that were highly preferred by the customers were small businesses. They said small businesses were easy to start and run. They did not require much capital and experience to start like the corporate ones. They were easy to manage by young and emerging entrepreneurs. Small businesses yield quicker returns than the corporate ones.

5.2.4 Whether customers were given guidance before undertaking any investment:

The researcher found out from the respondents that they were given some guidance before being given a loan. This guidance was specifically on how to better use it and be able to pay back without difficulties. However, it was unveiled that high taxes were reducing the respondents' profits and this was a disincentive to the stability of their businesses.

5.2.5 Location of Agent Banking:

The researcher discovered from his observation and from the respondents' reaction that agent banking was not evident in all parts of the country. They were mainly operating in the cities and city suburbs but not evident enough in rural areas. This had deprived rural areas of businesses and nearness to financial services thus rural urban migration.

5.2.6 Types of business loans preferred by the customers:

Another critical finding was that there were few customers undertaking corporate businesses. This is because the respondents said that they were very expensive and demanded a lot in form of collateral security, land, experience, supervision and capital. However, majority of the respondents were found to be beneficiaries of micro business loans because they required them little funding and were easy to mitigate their risks compared to the corporate businesses. Most of the respondents could easily manage to have startup capital as a basis to request for a loan from Equity to supplement their principal and implement their business ideas.

5.2.7 Whether the loans were affordable:

The researcher had complaints from the respondents that the interest rates on business loans were very high and therefore making the loan very expensive yet repayments were made in a short span.

5.2.8 Technological services offered to customers by Equity Bank Rwanda.

There was limited use of some technological services such as credit cards, PoS, Telecos and AutoBranch Visa Card by majority of the customers due to information deficiencies about their existence and how to use them. They promised the researcher that they would find out from the bank about their availability and how to use them.

5.2.9 Charges for using a Debit Card:

The charges for using a debit card at Equity bank Rwanda were very high compared to what other local and foreign banks in Rwanda charged. The respondents said each withdrawal was 180 Rfw. The Bank allowed one to withdraw around 500,000 Rfw a day. The dominant notes in the ATM were chiefly 2,000 and 1,000 Rfw. It was impossible for one to withdraw half a million at once. This would require him or her to do multiple withdraws thus increasing technological charges. The respondents were also very an unhappy with the cost of a debit card on every renewal.

5.2.10 When to qualify for a credit card:

The researcher discovered an inconsistence in the respondents' responses concerning the time when one could secure a credit card. Some of them said they got it immediately after opening up an account while others said it took them half a year to get it.

5.3 Recommendations:

Based on the above conclusions, the researcher came up with the following recommendations.

5.3.1 Managerial Recommendations:

Equity bank should try to encourage some of its customers in the villages and towns to join agent banking business. This will help the local population across the country to access its financial services and be able to meet their daily business transactions. The bank should also introduce mobile banking in upcountry areas. More branches and outlets should be opened up in all parts of the country.

Equity bank Rwanda, should advertise all its technological services so that the entire public and its customers are aware of them, their accessibility and how to use them. There should be a reduction on the costs of using these technological services to make them affordable and friendly to the customers. For instance the cost of using a debit card should be reduced from 180 Rfw to something less. Credit services should be extended to all interested customers at an equal basis provided the borrower meets all the requirements.

5.3.2 Policy Makers Recommendations:

There is need for the government of Rwanda to make the investment climate much better so that small and large businesses are encouraged to mushroom across the country. To this end, there is need to give both local and foreign investors tax holidays as well as lowering taxes. This will leave the business owners with enough profits to expand their businesses and employ the local population. They should be given a grace period of at least six months so that they gain financial stability and start paying taxes. This will motivate starters to try their luck and position themselves better. If this exemption for one semester is granted, it will encourage people to expand their business by requesting for loans from the banks.

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