International Journal of Thesis Projects and Dissertations (IJTPD)
Vol. 4, Issue 2, pp: (152-157), Month: April - June 2016, Available at: www.researchpublish.com

The Effect of Foreign Portfolio Investment on the Financial Performance of Commercial Banks in Rwanda

Frederick Kamali[1], Jaya Shukla[2], Tobbias Olweny[3]

[1,2,3] Jomo Kenyatta University of Agriculture and Technology, Kigali, Rwanda

Abstract: **The study looks at the effect of foreign portfolio investment on the financial performance of commercial banks in Rwanda a case of BPR commercial bank. The specific objectives of the study were: To examine foreign portfolio investment in shares on the financial performance of Banque populaire du Rwanda, to analyze foreign portfolio investment policy on the financial performance of banque populaire du Rwanda. The research design that was used in the study was Descriptive Research Design. The researcher focused on describing and explaining the effect of foreign portfolio investment on the financial performance of commercial banks in Rwanda a case of BPR commercial bank using questionnaires. A sample size of 93 respondents from finance, credit, cooperate, retail department and active clients where selected in this study. For a comprehensive study, the researcher adopted a cross-sectional survey design to capture information in relation with objectives of the study. In January 2008, following 33 years of experience in the Rwandan financial sector, UBPR was transformed from a cooperative bank into a commercial bank: Banque Populaire du Rwanda S.A. In June 2008, Rabobank, the Dutch cooperative banking conglomerate, acquired 35 equivalent to frw 4,877,581,000. In July 2012, Visa Inc. certified the bank to issue visa-branded debit and credit cards. The study is based on the assertion that foreign portfolio investment has a significant contribution on the profitability of the banking sector in Rwanda as well as bank populaire du Rwanda (BPR).**

The above objectives were achieved by using qualitative and quantitative data collection and analysis methods. The instruments that were used are questionnaires and documentary review. Data was analyzed using statistical analysis like regression analysis and SPSS.

The findings of the study engaged employees from various departments in BPR main Branch and active clients. From the regression analysis used, investment in shares has impacted positively bank populaire du Rwanda as it is evidenced by (P 0.001 < P 0.05) statistically significant. This finding matches with that of Van, H.& James, C (1990) that Financial globalization in developing countries is mainly favored by the availability of cheap labor and the fact that, return on capital is relatively High, Credit facilities of Banque populaire du Rwanda have been significant (P 0.031< 0.05).This finding is also emphasized by Gallagher(2007) that Commercial banks and other financial institutions that exist primarily to lend money to business, to individuals, governments, and other entities but the bulk of their profits come from business loans. Cultivating good loan customers and using credit-risk analysis to ensure that borrowers are credit worthy. The researcher also gave out the proper recommendation on effectiveness of foreign portfolio investment So that the Government of Rwanda can be able to take more serious the responsibility of creating an enabling environment for effective, value- adding foreign portfolio investment in the banking sector. From the research findings,From the research findings, the literature research and the results of the analysis of the responses to this study, the following conclusions were reached. Since 2008, with Rabobank foreign investment, BPR has taken huge strides in developing IT systems and improving internal organization. This has enabled the bank to automate its network, introduce innovative new products such as mobile banking and expand the ATM network beyond the main cities – all vital ingredients in improving access to financial services in both urban and rural areas.

Keywords: **Foreign portfolio investment, financial performance.**

1. INTRODUCTION

Foreign portfolio investment is a phenomenon resulting from globalization, which involves the integration of the domestic economic system with global markets. It is accomplished through opening up of the local economic sector as well as domestic capital for foreign investors to establish business.

The financial performance of banks is expressed in terms of profitability and the profitability has no meaning except in the sense of an increase of net asset. Profitability is a company's ability to earn a reasonable profit on the owner's investment (Warren 2005). Most organizations exist is to earn profit and profitability ratios show a company's overall efficiency and performance.

2. STATEMENT OF PROBLEM

In spite of the laudable benefits Rwanda stands to derive from the inflow of foreign capital like its attending contribution to economic growth, improvement of the standards of living and the provision of social amenities. The challenge of most developing economies today (Rwanda inclusive) is their overdependence on foreign capital which do not bring positive impacts only but negative impacts as well .The researcher therefore examined the extent to which foreign portfolio investment (FPI) could affect the financial performance of commercial banks in Rwanda. The work therefore tried to look at the effect of FPI on the financial performance of commercial banks in Rwanda, with a view to preferring possible recommendations

3. OBJECTIVES OF THE STUDY

The study will examine the effect of foreign portfolio investment on the financial performance of commercial banks in Rwanda. A case study of Bank Populaire Du Rwanda

3.1 Specific objectives of the Study:

1 To determine portfolio investment in stock on the financial performance of Banque populaire du Rwanda.

2 To determine the Effect of bond market on the financial performance of BPR

3 Analyze foreign investment policy on the financial performance of banque populaire du Rwanda.

4. RESEARCH METHODOLOGY

4.1 Research Design:

Research design is a framework for conducting the research project. It details the procedures necessary for obtaining the information needed to structure or solve research problems. Descriptive research was used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation. The study examined foreign portfolio investment on the financial performance of commercial banks in Rwanda. A case study of bank populaire du Rwanda (BPR).

4.2 Target population:

The population of interest in this research was departments from BPR.The researcher interviewed 93 respondents from population sample of 1400 from different departments in BPR and clients. A census was applied as the method of systematically acquiring and recording information from the given population.

4.3 Sampling size and technique:

Slovens formula was used in determining the sample size

Let N be the population size and the margin of error e denotes the allowed probability of committing an error in selecting a small representative of the population.

The sample size can be obtained by the formula

$$n = \frac{N}{1 \pm N\{e2\}\ldots}$$

Where,

n= sample size

N=Population

e= Acceptable sample error 10%

$$n = \frac{1400}{1+1400\{0.1\}2} = 1400 \div 15 = 93$$

5. DATA COLLECTION INSTRUMENTS

Data was collected using different instruments. Hence the use of:-

a) Primary source:

Primary data were collected from respondents through issuing of questionnaires. Respondents were guided by the researcher to understand the questions whereby they delivered the required information.

b) Secondary source:

In the secondary data, the researcher reviewed some documents relevant to the topic of the study. The researcher used documents such as reports, journals, newspapers, internet and other publications.

5.1 Data Management and Analysis:

Data obtained from the questionnaires were analyzed first using regression and SPSS version 17.0 and presented in the form of frequency tables. Some aspects of the data obtained from open-ended questionnaires were thematically analyzed and supported by the information obtained through the focused group discussion. The second and third sections constitute the bulk of the findings from interviews, document analysis procedures and observational schedules, and like the second aspect of the questionnaire were thematically analyzed. In all cases the research themes were addressed.

6. RESULTS AND INTERPRETATION

6.1. Regression analysis on the study variables:

6.1.1 Analysis of the investment in stock on the financial performance of Banque populaire du Rwanda:

Table 1: Regression analysis on the effect of stock on the financial performance

Explanatory variables	**Coef.**	**Std. Err**	**p**	P-value
investment in shares	-.3403269	.1433502	-2.37	0.001 **
investment turnover	.4430356	.1635679	2.71	0.009
capital base	.2555246	.1509566	1.69	0.000 **
Redeemable shares	.1769912	.1510241	1.17	0.245
Preference shares	.0762863	.1044639	0.73	0.468
level of technology	1.366712	.1378857	9.91	0.096

Significant at 5% (**),
Number of obs = 93
Prob> F = 0.0000
R-squared = 0.7671

As from the above regression analysis, investment in shares has impacted positively bank populaire du Rwanda as it is evidenced by (P 0.001 < P 0.05) statistically significant**.** This finding matches with that of Van, H.& James, C (1990) that Financial globalization in developing countries is mainly favored by the availability of cheap labor and the fact that, return on capital is relatively High.

6.1.2 The Effect of bond market on the financial performance of BPR:

Table 2: Regression analysis on the bond market on financial performance

Explanatory variables	Coef.	Std. Err	p	P-value
legal structures	.1730799	.1621136	1.07	0.290
Credit facilities in BPR	.3368021	.1975501	1.71	0.031*
hindrance on Performance	-.7535568	.2095223	-3.60	0.601
branch network	-1.04313	.2059176	-5.07	0.03
Loan disbursement	.1646684	.2787159	0.59	0.077
Cash in flow increased	.3597837	.2334988	1.54	0.001*
terms of collateral	4.795529	.2514588	19.07	0.128

Significant at 5% (*)
Number of obs = 93
Prob> F = 0.0000, R-squared = 0.5400

As per the regression analysis, Credit facilities of Banque populaire du Rwanda have been significant (P 0.031< 0.05).The finding was also emphasized by Gallagher (2007) that Commercial banks and other financial institutions that exist primarily to lend money to business, to individuals, governments, and other entities and the bulk of their profits come from business loans.

6.1.3. Foreign investment policy on the financial performance of banque populaire du Rwanda:

Table 3: Regression analysis on the of investment policy on financial performance

Explanatory variables	Coef.	Std. Err	p	P-value
Investment policy	-.0221647	.0470926	-0.47	0.640
transfer of funds	-.0342031	.0683635	-0.50	0.619
level of investment	-.0105437	.0575389	-0.18	0.045 *
Foreign exchange	.7863183	.0724718	10.85	0.033 *
Bilateral terms	-.0199644	.0784399	-0.25	0.800

Significant at 5% (*)

Number of obs = 93

Prob> F = 0.0000

R-squared = 0.9466(coefficient for correlation)

The level of investment in Rwanda has improved as evidenced in the regression analysis above (p0.0045< 0.05) Attitudes towards foreign investment are varied depending on the onset of the practice.

People are usually emotional in regard to the ownership of resources in their country. This finding is in consistency with(Hubbard 1997). that Foreign investment has generated different emotions since its inception in many countries.

7. CONCLUSION AND KEY FINDINGS

The main objective of the study was to determine the effect of foreign portfolio investment on the financial performance of commercial banks in Rwanda: a case of banque populaire du Rwanda. The present research report was guided by the following specific objectives: First, To determine portfolio investment in stock on the financial performance of Banque populaire du Rwanda; Secondly, Analyze foreign investment policy on the financial performance of banque populaire du Rwanda; and Finally, To determine the Effect of bond market on the financial performance of BPR

Key findings:

Foreign companies investing in banks are significant in facilitating its financial performance. Companies therefore sought to establish in other regions where they could diverse risk and use of cheap labor and produce the same quantity or exceed as they would in the parent country. Risk and Market are also major factors that facilitated the movement of firms to venture in regions with ready market.

When foreign investors injected their money in Banque populaire du Rwanda, the banks' penetration in upcountry improved, loan disbursement increased and better services as a result of technology. All these positive effects were as a result of increased liquidity brought about by foreign portfolio investment. Today Bank populaire du Rwanda BPR is second largest leading banking institution after bank of Kigali (BK) in Rwanda, offering a wide spectrum of commercial banking services to corporate, SME and retail customers.

The profitability of any lending institution is heavily dependent on its credit facilities and lending programs. Lending is the most important banking financial institutions activity; it represents the largest commitment of funds for depository financial institutions and produces the greatest share of total revenue generated from earning assets. Thus lending programs must be well done and managed to affect the bank's profitability positively because poor management of credit is one of the major causes of bank's failure, and the precision here is that profitability is the ultimate determinant of an organization's success or failure. Since the investors joined BPR, the credit facilities improved, this one is reflected in the financial performance of BPR after foreign investment, hence significant.

The level of investment is at an appreciative level since the governments and the locals have gained positive attitude on foreign investment. Findings also realized that local ownership requirements are also essential. Rwanda does not restrict foreign investors from owning shares in any company, though the government strongly encourages local participation. Similarly, there are no prohibitions on foreign firms acquiring Rwandan firms or on joint venture arrangements between Rwandans and foreigners.

The area of concern for investors is in the area of currency volatility. When investing in a foreign market you have to exchange your domestic currency (USD for U.S. investors) into a foreign currency at the current exchange rate in order to purchase the foreign stock.If you hold the foreign stock for a year and sell it.you will have to convert the foreign currency back into USD at the prevailing exchange rate one year later. It is the uncertainty of what the future exchange rate will be that scares many investors.The solution to mitigating this currency risk, as any financial professional will likely tell you, is to simply hedge your currency exposure.Foreign exchange in Rwanda is significant since its currency is stable compared to other countries in the region

REFERENCES

[1] Ahmad, N.H. &Ariff, M. (2007). *Multi-country study of bank credit risk determinants*

[2] Ahmadu (2011). Credit *risk and the performance of Nigerian banks*, Zaria University,

[3] Ahmed, A.S., Takeda, C. & Shawn, T. (1998). Bank *loan loss provision: A Reexamination.*

[4] Al-Khouri, R. (2011). *Assessing the risk and performance of the GCC banking sector, Bank Failure.*

[5] Basel Switzeland.Berger, A. &Uduell, G. (1993).*Securization, risk, and the liquidity problem*

[6] Ben-Naceur, S. &Omran, M. (2008).*The effects of bank regulations, competition and financial* Bernardino.

[7] *Capital Management and Signaling Effects. Working Paper, Department of Accounting,* Syracuse University

[8] Don, H. (2000). *Profitability measures.* The MacMillan publishing

[9] Felix, A.T & Claudine, T.N (2008).*Bank performance and credit risk management,* unpublished Financial Analysts Journal. May-June 1987. Pp 74-76.

[10] Gallagher, G. T. (1989). *Credit risk analysis.*(2nd ed).. NY. The MacMillan

[11] Gibson, C. (1987*). How chartered financial analysts view financial ratios*.

[12] Gitman, F. (1991).*Modern management.* Brown Publisher, Boston

[13] Gitonga, M. J. (2010). *Relationship between credit risk management and profitability*. press

[14] *Government and Financial Risk Management*. The World Bank. Washington.

[15] Greuning, H. a. (2000).*Analyzing banking risk. A framework for Assessing Corporate*

[16] Hubbard, R. F. (1997). *Méthodes des sciences sociales*. 11ème éd. Paris. Iqbal, Z.& Mirahhor, *in banking: structural change in banking*.(1st ed) press. Illinois. United States of America. USA.

[17] Inc, eaglewood cliffs, N. J. United States of America. USA. *Internal auditing relationship*.(2ND ed) press Hong Kong.

[18] International Journal of Banking and Finance

[19] International Journal of Finance and Economics

[20] Joppe, M. (2000).*The research process*. Kargi, H.S.

[21] Kenneth, J. T. (1995). *Management of financial institutions*. California State University, San Kenya.

[22] Kithinji, A.M. (2010). *Credit risk management and profitability of commercial banks in Kenya*,

[23] Levy., & Post,T. (2005). *Association fir Investment Management and Research. Charlittesville.* Reserved Haim. M.A Basil Blackwell. Cambridge

[24] Markowitz, H. (1991). Efficient *diversification of investments.In Portfolio Selection*.

[25] Mugenda, O.M &Mugenda A.G, (2003).*Research methods.* Act Press. Nairobi.

[26] NY. Yeager, C.& Neil, E. (1991). *Financial institution management. 3rd ed.* United States.

[27] Obiero, D. (2002). *The banking sector regulatory framework in Kenya.Adequacyin Reducing*

[28] Onyango, J. O. (2010). A *survey of credit risk management practices of commercial banks in Kenya.* Unpublished MBA Research Project UoN. Prentice Hall.Inc.America. USA.

[29] Press New Delhi: Tata McGraw/Iruin. New York. press University of Skovde. publishing. Inc. New York

[30] RBI.(1998 - 99).*Part on trend and progress of banking in India.*

[31] Richards, F. (1984).*Commercial bank- financial management.6th ed.* Fort Worth.United States of America. USA.

[32] Saunders, A. & Marcia, M. C. (2011). *Financial institutions management*. A *Risk Management* University of Nairobi, Nairobi.

[33] Van, H.& James, C. (1990*). Financial institution management and policy. 2nd ed.* Prentice Hall.

[34] Warren, E.B. (2005). *Financial institutions. 4th ed*. New York. Hall Inc.

[35] Wiley A. (2007). *An introduction to Islamic finance: Theory and Practice.* Singapore.