

# Contribution of Commercial Bank Services on the Growth of Hospitality Industry in Rwanda

## Case of Kigali's Five-Stars Hotels

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### Abstract

This study aimed to assess the impact of commercial bank services on the growth of the hospitality industry in Rwanda. Employing a descriptive research design, a census was conducted on 129 employees within the Rwandan hospitality sector. Primary data were gathered through questionnaires, supplemented by a documentary review for secondary data.

In Table 4.6, the study revealed that 'short-term commercial loans' (ranked first at 2.75), 'long-term commercial banks' (ranked second at 2.55), 'line of credit' (ranked third at 2.41), and 'mortgage' (ranked fourth at 2.20), cumulatively scoring 9.91, signifying the significant contribution of bank lending services to the growth of the hospitality industry in Rwanda.

Table 4.7 explored the contribution of commercial bank saving services to the industry's growth. 'Regular savings' ranked first at 2.91, 'long-term savings' ranked second at 2.71, 'high-yield savings' ranked third at 2.63, resulting in an overall score of 8.25. These findings underscored the substantial impact of commercial bank saving services on the growth of the Rwandan hospitality industry.

Examining advisory services in Table 4.8, 'business development' ranked first at 2.86, followed by 'risk management' at 2.77, 'strategic planning' at 2.69, and 'specialization expertise' at 2.54, with an overall score of 10.86. This suggests that commercial bank advisory services significantly contribute to the growth of the hospitality industry.

Furthermore, statistical analysis in Table 4.11 demonstrated that the coefficients of commercial bank lending, saving, and advisory services were all statistically significant at the 1 percent level. The high t-statistics (9.420, 6.900, and 6.750, respectively) and negligible probabilities of error (0.000) affirm the statistically significant impact of commercial bank services on the growth of the hospitality industry in Rwanda.

**Keywords:** Banking sector, Hospitality industry, financial intermediation, Restaurant, Kigali City Rwanda

### 1. Introduction

The background of the study establishes a clear context for investigating the relationship between the banking sector and the hospitality industry in Rwanda. It highlights the pivotal role of the banking sector in financial intermediation and economic growth, while acknowledging recent research indicating potential biases in sector prioritization, especially with regards to the hospitality industry. The interdependence between banking and hospitality is emphasized through various associations, such as banks using hotels

and restaurants for events. Challenges arising from global economic downturns, affecting banks' liquidity and their ability to support the hospitality sector, are recognized as significant factors influencing this relationship.

The study contextualizes the banking sector's role as the "engine of growth" for various sectors, including hospitality. It notes researchers' findings regarding the differential allocation of funds to specific sectors, with potential implications for the hospitality industry. The hospitality sub-sector's diverse services are acknowledged, catering to individuals, families, and organizations temporarily away from home. The importance of understanding customer preferences in this sector is highlighted, reinforcing the notion that hospitality goes beyond traditional hotels and restaurants. The historical perspective traces the mutual understanding between banking and hospitality, showcasing how this collaboration has benefited both parties in raising funds for economic growth. The provision of food and shelter is underscored as crucial to societal well-being, with examples such as banks using hospitality services during seminars and conferences. (Michele, 2011)

Globalization trends and their impact on financing tourism in Rwanda are discussed, particularly in light of the global financial crisis and recent drops in crude oil prices affecting banks' liquidity and their ability to channel funds to the hospitality sector. The study also considers the current economic crisis in Nigeria, illustrating the ripple effects on sectors, including banking and hospitality. The role of banks in amassing surplus cash and their contribution to economically weaker sectors are highlighted, recognizing that the size of financial institutions can influence returns and expenditures. (Huizinga & Cécile, 2004)

The background concludes by recognizing the potential for a straightforward hospitality business to evolve into a conglomerate in Rwanda with banks' financial assistance. Commercial banking operations are positioned as facilitators of economic development, especially in emerging nations like Rwanda, where traditional agriculture faces challenges related to infrastructure, funding, and business development. Finally, the study's specific focus on the Contribution of commercial Banks to Rwanda's hospitality industry growth using five-star hotels in Kigali as a case study is introduced. This focused approach ensures a clear direction for the research,

## 2. Problem Statement

The hospitality industry in Rwanda, particularly evident in Kigali's five-star hotels, faces significant challenges impeding its growth and productivity. These challenges include limited access to credit from formal banking institutions, reliance on informal funding sources due to high-interest rates and stringent conditions imposed by banks, and an overall lack of sufficient financial support from both government developmental programs and private sectors. These issues hinder the industry's ability to optimize its potential and meet the growing demand for high-quality services. Despite previous studies showing the positive correlation between bank credits and growth in various sectors, there is a notable gap in research focusing on the hospitality industry's financial dynamics. Therefore, this study aims to investigate the role of Commercial Bank Services in fostering the growth of Rwanda's hospitality industry, with a specific emphasis on Kigali's five-star hotels, to provide insights for strategic interventions and collaborative efforts between financial institutions and the hospitality sector, ultimately contributing to the sustainable development of the industry.

## 3. Objectives of the Study

1. To determine the impact of lending services on the growth of the hospitality industry in Rwanda.

2. To analyse the contribution of saving services to the growth of the hospitality industry in Rwanda.
3. To assess the impact of bank advisory services on the growth of the hospitality industry.

#### 4. Conceptual Review:

In their 2013 study, Cihak, Demirguc-Kunt, Feyen, and Levine underscored the significance of assessing financial system stability in low-income countries, emphasizing efficiency and access alongside financial depth. The World Economic Situation and Prospects report (2019) identified persistent macro-economic challenges in capital movement since the 2008 economic crisis, affecting development funding in the hospitality industry. The prolonged high cost of funds post-2008 has presented obstacles such as increased employee turnover costs tied to recruitment, selection, and training, especially concerning an aging workforce. Additionally, a shift towards convenient food consumption has driven a surge in eating out or purchasing prepared food, emphasizing the need to harness tourism for sustainable development.

#### 5. Empirical Review

Financial institutions play a crucial role by accepting cash deposits from manufacturing firms and securely holding them. This enables the hospitality industry to conduct its operations seamlessly, including salary payments, bill settlements, and procurement of materials. Moreover, it serves as a risk mitigation strategy, safeguarding against losses during unforeseen calamities. Additionally, a positive interaction effect between the hospitality industry and financial institutions is posited by Fisman and Love (2014). They contend that hospitality industries heavily reliant on external financing experience higher growth rates in countries with more developed financial markets. However, in the context of Rwanda, where financial markets are still evolving, a counterargument arises suggesting that dependence on external finance might not necessarily lead to the highest growth rates. The challenges faced by the hospitality industry, such as a lack of finance and customers, are evident in many regions.

Commercial banks often act as lending agents, receiving cash collateral and investing it until it needs to be returned. The income generated from reinvesting cash collateral is shared through rebates with the borrower and then distributed between the securities lender and the agent bank. This arrangement allows major investment funds to earn incremental income on their portfolio holdings. Tomola, Adebisi, and Olawale (2014) conducted a study on bank lending, economic growth, and the performance of hotels in Nigeria. Their research revealed that manufacturing capacity utilization and bank lending rates significantly impact hotel output in Rwanda. Despite these findings, the study did not establish a clear relationship between hotel output and overall economic growth. The results underscore the need for collaborative efforts among the government, entrepreneurs, and lending institutions to review lending and growth policies, creating a conducive macroeconomic environment that encourages investment-friendly practices.

Gacuiru and Henry (2013) conducted an analysis of the challenges faced by hotel entrepreneurs in accessing credit. Their study aimed to investigate the cost of credit and its impact on credit accessibility among hotel entrepreneurs in Kenya. The research identified challenges such as high loan processing fees, legal fees, interest rates, credit insurance costs, and expenses incurred in the credit-seeking process. However, the study focused solely on young entrepreneurs, lacking consideration for their limited experience in credit and small business performance. Furthermore, while various challenges were analyzed, the study did not delve into the profitability and productivity of borrowers.

Anthony and Thomas (2012) conducted a study on access to credit and the growth of small hotel businesses in Ghana. Their research, combining survey and econometric methods, found a significant positive

effect of access to credit on the growth of hotels in the Volta Region of Ghana. The study's policy implication emphasized the importance of the government meeting the credit needs of hotels for accelerated economic growth. Despite contributing significantly to understanding hotel growth, the study did not establish a clear relationship between the variables under study and the financial performance of the hotels.

## 7. Critical Review and Research Gap

In their study titled "Access to Credit and Growth of Hotel Business in Ghana," Anthony and Thomas (2012) employed both survey and econometric methods to explore the impact of access to credit on the growth of hotel businesses in Ghana. While their research made a substantial contribution to understanding hotel growth, a notable gap exists as they did not establish a clear relationship between the variables under study and the financial performance of the hotels.

Similarly, Tomola, Adebisi, and Olawale (2014) conducted a study on "Bank Lending, Economic Growth, and the Performance of the Hospitality Industry in Nigeria." Although their findings indicated significant influences of hotel capacity utilization and bank lending rates on hospitality industry output in Nigeria, the study failed to establish a clear relationship between hospitality industry output and overall economic growth in the country. Tomola et al.'s recommendations focused on policy adjustments to create a more investment-friendly environment.

Recognizing these gaps, the proposed research aims to address limitations by using profitability ratios to assess the financial performance of the hospitality industry. Additionally, the study intends to examine the influence of bank services on industry growth through correlation coefficient analysis. Furthermore, a broader gap in the existing literature, particularly related to studies in poorer or low-income countries, is emphasized. The proposed research aims to contribute to a more comprehensive understanding of the relationship between commercial banks and hospitality industry growth, especially in regions with lower per capita income levels, providing valuable insights for development policy reform.

## 6 Research design

This study the research design descriptive and used both qualitative and quantitative data. The study also used both primary and secondary data to get clear meaning of the findings on the influence of financial markets on performance of hospitality industry in Rwanda.

## 8. Data collection instruments

These tools for obtaining data and include interviews, questionnaires, and observation. The researcher intends to use both open ended and closed ended questionnaires and all been self-administered. To obtain detailed data, the study also used the interviews especially in cases where the respondents who had limited time and those that needed clear and simple straight forward interpretation of the questions. Then the observation method been used to see the the contributions of Commercial Bank Services on Growth of hospitality industries. This research also used the data from national bank.

## 9. Data processing methods

Normally, data collected from respondents was in a row form, which are easy to interpret and analyze for conclusions. Data processing used to transform the respondent's views into meaningful test. On this note, editing, coding, and tabulating of data applied in order to be able to handle it easily.

### 10. Regression Analysis

Regression analysis is a powerful statistical method employed to examine the relationships between variables. In the context of this study, regression analysis will be utilized to assess the connection between commercial bank services and the growth of the hospitality industry, with a specific focus on profitability. This section outlines the key components of the regression analysis.

### 11. Model Specification

The regression model will be formulated to examine the impact of commercial bank services on the profitability of the hospitality industry. The model can be represented as follows:

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \dots + \beta_k X_{ki} + \epsilon_i$$

Where:

- $Y_i$  is the dependent variable representing profitability in the hospitality industry.
- $X_{1i}, X_{2i}, \dots, X_{ki}$  are independent variables representing different aspects of commercial bank services.
- $\beta_0$  is the intercept.
- $\beta_1, \beta_2, \dots, \beta_k$  are the coefficients representing the relationship between the dependent and independent variables.
- $\epsilon_i$  is the error term.

### 12. DATA PRESENTATION AND INTERPRETATION OF RESULTS.

The researcher used a descriptive design where contribution and issues related to commercial bank and growth of hospitality industries were described. The population of the research was 129 employees of hospitality industries and Commercial Bank from top management to middle staff. The researcher used census technique to the small size of the population. Data was collected using questionnaires for primary data while for secondary data; the researcher used documentary review. Researcher extracted data from questionnaires and present it using tables. The presented data was later analyzed and interpreted using statistical methods to determine the percentages and frequencies upon which conclusion of the findings was based. The researcher used SPSS Program to obtain frequencies and percentage from the views given by respondents upon which analysis and interpretation was based. The researcher used regression model to analyze the relationship between two variables.

#### Background information of respondents

**Table 4.1: Education background of respondents**

Level of Education	Frequency	Percent
Certificate	5	3.8
Diploma	37	28.2
Bachelor’s Degree	65	49.6
Master’s Degree/PHd	22	16.8
Total	129	100.0

Source : Field data 2023

The table 4.1 above describe the education background of respondents. Considering the statements in the table 4.1, ‘bachelor’s degree’ 51.2%, it was ranked first; ‘diploma 28.2%’ it was ranked second; master’s

degree/phd '16.8% was ranked third; and 'Certificate,' (3.8%), which was ranked fourth, this means that commercial Bank contribute to the growth of Hospitality industry in Rwanda.

**Table 4.2: Working Experience of respondents**

Experience	Frequency	Percent
Less than 1 year of	17	13.0
Between 1-2 Years	31	23.4
Between 3-4 Years	51	39.8
Above 5 Years	31	23.8
Total	129	100.0

Source : Field data 2023

The table 4.2 above working experience of respondents. Considering the statements in the table 4.2, 'between 2-4 years 51.6 % , it was ranked first; 'between 4-5 years 23.8%' it was ranked second; 'between 1-2 years '23.4% was ranked third; and 'less than,' (13%), which was ranked fourth, this means that the high frequency of respondents working experience was between 2-4 years of experience.

**Table 4.3: Age of respondents**

	Frequency	Percent
Below 20 years old	7	5
Between 21-30 Years Old	38	29
Between 31-40 Years Old	47	37
Between 41- 50 Years Old	24	18
Above 5 years old	13	10
Total	129	100

Field data 2023

The table 4.3 above age of respondents. Considering the statements in the table 4.3, 'between 31-40 years 37%, it was ranked first; 'between 21-30 years 29%' it was ranked second; 'between 41-50 years '18% was ranked third; above 5 years old (10%), it was ranked four and below 20 years old (5%), which was ranked five, this means that the high frequency of respondents was between 31-40 years old.

**Table 4.4: Gender of respondents**

Gender	Frequency	Percent
Males	68	53.4
Females	61	46.6
Total	129	100.0

Source : Field data 2023.

The table 4.4. above gender of respondents. Considering the statements in the table 4.4, 'males 53.4 % , it was ranked first; 'and Females 46,6%' it was ranked second; this means that the high frequency respondents was males.



**Table 4.5: Job Position of respondents**

Job Position	Frequency	Percent
Top Manager	35	26.7
Middle Level Manager	73	55.7
Junior Level Manager	21	16.0
Other workers	0	0
Total	129	100.0

Source : Field data 2023.

The table 4.5 above showed job position of respondents, Considering the statements in the table 4.5, ‘Middle level manager 55.7 %, it was ranked first; ‘Top Manager 26.7%’ it was ranked second; ‘16% was ranked third; This means that the respondents are the institution decision Makers.

**Discriptive statistics**

Field data 2023.

Table 4.6 above showed the mean scores of banking lending services contribution to the growth of hospitality industry in Rwanda. Considering the statements in the table 4.6, ‘short term commercial loan’

**Table 4.6: Respondents views on Contribution of Lending Services to the growth hospitality industry**

Variables	Mean	Rank
<b>Contribution of Lending Services to the growth hospitality industry (Overall)</b>	<b>9.91</b>	
Short term Commercial loan	2.75	1
Long term commercial loan	2.55	2
Line of Credit	2.41	3
Mortgage Loan	2.20	4

(2.75), it was ranked first; ‘long term commercial bank,’ (2.55), it was ranked second; ‘line of credit,’ (2.41) was ranked third; and ‘Mortgage,’ (2.20), which was ranked fourth and overall, (9.91).

**Table 4.7: Respondents views on Contribution of Saving Services to the growth hospitality industry**

Variables	Mean
<b>Contribution of Saving Services to the growth hospitality industry (Overall)</b>	<b>8.25</b>
Regular Savings	2.91
Long term Saving	2.71
High Yield Saving	2.63

Field data 2023.

Table 4.7 above considered the contribution of commercial bank saving services the growth of hospitality industries in Rwanda the; regular savings, (2.91) was ranked first; ‘long term saving,’ (2.71) was ranked second; ‘High yield savings,’ (2.63) was ranked third and ‘overall,’ (8.25).

**Table 4.8: Respondents views on Contribution of Bank Advisory Services to the growth hospitality industry**

Variables	Mean	Rank
<b>Contribution of Bank Advisory Services to the growth hospitality (Overall)</b>	10.86	
Business Development Assistance	2.86	1
Risk Management Advice	2.77	2
Strategic plan assistance	2.69	3
Specialization Expertise	2.54	4

Field data 2023.

Table 4.8 above considered the contribution of commercial bank advisory services to the growth of hospitality industries in Rwanda the; Business Development, (2.86) was ranked first; ‘Risk management,’ (2.77) was ranked second; ‘Strategic plan,’ (2.69) was ranked third, ‘Specialization Expertise,’ (2.54) was ranked Fourth and ‘overall,’ (10.86).

**Table4.9: Regression Analysis**

Model Summary				
Model	R	R Square	Adjusted R Square	Standard error Estimate
1	.865 <sup>a</sup>	.798	.775	.412
Predictors: (Constant), $X_1$ , $X_2$ , $X_3$				

Field data 2023

From table 4.9 above, the value of R Square (0.798, measuring goodness of fit) is high and it shows that the regression model is fit. The adjusted R Square (0.775) indicates that the model; Bank lending services, Bank saving services and bank advisory services explain that Commercial bank services contribute 77.5% on growth of hospitality industries in Rwanda.

**Table4.10: ANOVA Result**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F-Statistics	Sig.
1	Regression	245.201	1	.915	20.48	.000 <sup>b</sup>
	Residual	111.705	127	.880		
	Total	356.906	128			

a. Dependent Variable: Growth hospitality industry

b. Predictors: (Constant), The Bank Saving Services, Bank lending services and Bank advisory services

Field data 2023.

To assess the statistical significance of the results of the R Square explained the above table. It is necessary to look in the above ANOVA table. From the table 4.10, the F-Statistics (20.48) is high, and the P-value (0.000) is less than 0.05 which all together indicates that overall contribution of the independent variables on the dependent variable is significant.



**Table 4.11: Coefficient Result**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.523	.060		8.137	.000
	Bank Lending Services	.261	.027	.015	9.420	.000
	Bank Saving services	.221	.041	.112	6.900	.000
	Bank advisory services	.323	.52	.132	6.750	.000
a. Dependent Variable: Growth hospitality industry						
b. Predictors: (Constant), The Bank Saving Services, Bank lending services and Bank advisory services						

Field data 2023

From table 4.11., the coefficient of commercial bank lending services is statistically significant even at 1 per cent level of significance. This is because the t-statistic for the coefficient of lending services is 9.420 i.e., high and the probability of error is 0.000. The coefficient of bank saving services is statistically significant at 1 per cent level of significance. This is because the t-statistic for the coefficient of saving services is 6.900 i.e., high and the probability of error is 0.000. Also, the coefficient of Commercial bank advisory service is statistically significant at 1 per cent level of significance. This is because the t-statistic is 6.750 i.e., high and the probability of error is 0.000. This is confirmed that Commercial Banks services have statistically significant impact on the growth of hospitality industry.

### 13. Summary of Findings

The study investigated the impact of commercial bank services on the growth of the hospitality industry in Rwanda. Descriptive statistics, including frequencies and percentages, were employed, with 129 respondents considered. The Z-score statistics and adjusted R Square (0.775) revealed that bank lending, saving, and advisory services collectively contribute 77.5% to the growth of the hospitality sector in Rwanda. A 95% confidence level and a 5% level of significance were applied in hypothesis testing.

Table 4.6 presented the mean scores for banking lending services, with 'short-term commercial loan' ranking highest (2.75), indicating significant contribution. Table 4.7 and 4.8 displayed similar results for bank saving services and advisory services, respectively.

The coefficients of bank lending, saving, and advisory services were statistically significant at the 1% level, confirming their substantial impact on the growth of the hospitality industry.

### 14. Conclusion

Based on empirical findings, the study concludes that commercial bank lending, saving, and advisory services all significantly contribute to the growth of the hospitality industry in Rwanda. This is evident in increased profitability, customer and guest numbers, innovation in services and products, and new investments.

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