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The Effect of Money Markets on Development of Manufacturing Industry in Rwanda

Dusingizimana Honoree

MBA Student, Department of Business Administration,
Jomo Kenyatta University of Agriculture and Technology, Kenya

Dr. Mulyungi, Patrick

Lecturer, School of Business Studies
Jomo Kenyatta University of Agriculture and Technology, Kenya

Abstract:

The purpose of the study was to assess the contribution of finance credit markets in the development of manufacturing industries. The study used descriptive research design to conduct a census on 22 employees of Sulfomanufacturing industry in Rwanda. Questionnaires were used to obtain primary data and documentary review for secondary data. The study concluded that money markets create trade opportunities through facilitating trade opportunities, by meeting short term capital needs and that that money markets facilitate company development through facilitating large investments. The study thus recommends that manufacturing industries should continue participating in finance and credit markets because it is important in development of manufacturing industries in Rwanda.

Keywords: Money market, manufacturing industries, trade opportunities, credit market

1. Introduction

Money market refers to financial market where financial instruments with high liquidity and short-term maturities are traded. It has become a component of financial market for buying and selling securities of short-term maturities of one year or less, such as treasury bills, certificate of deposit and commercial papers. The purpose of this market is to provide liquidity to market participants through short term financing. Majority of participants are financial institutions and regular companies looking to finance their day to day operations using the funds provided through this market. Money market is considered as a safe place to invest due to the high liquidity of securities.

Manufacturing companies is defined as any commercial business that uses components, parts or raw materials to make finished products (Aiguh, 2013). These projects are projected to meet the expectations and demands of customers. The purpose of company development is to address constant evolving needs of successful company through concerted collaboration of internal and external experts in the field to discover the process a company can use to become more stake holder effective. Company growth is a life-long, built-in mechanism to improve protection of company's health to renew itself inclusive ethics, often with the assistance of a change agent or substance and the use of enabling suitable concepts and approaches from applied social disciplines (Maduka & Udeaja, 2016).

Rwandan money market is one of the pillars for the national financial systems, commercial banks and other financial intermediaries are among the key players in the national financial market. Banks trade among themselves while other business institutions like Bralirwa are also key players in Rwandan money markets (RSE, 2015). The increase in participants on the money market largely depends on speculation about the values of the currency in future in relation to the present value of money. The national bank of Rwanda is the key controller of the money market in Rwanda as it monitors the trends of the market in relation to the value of money. The key players in the money market normally participate due to the need to raise capital, transfer risks, transfer of liquidity as well as enjoying such related investment opportunities. Due to the fact that manufacturing companies in Rwanda are capital intensive and they need more capital to run and manage their operations they are among players in the money market in Rwanda (CMA, 2014).

Manufacturing companies in Rwanda are enjoying a stable and improved performance largely due to the government support to manufacturing companies through promotion of made in Rwanda products. They are largely capital intensive and are looking for funds to further improve their performance or areas where to invest their accumulated profits. This has led to the increased participation of manufacturing companies like Sulfo industries in the money market, due to this participation such companies have been able to improve their reputation and profitability as well as increased avenues of investment hence improved performance.

2. Literature Review

The relationship between money markets and development of manufacturing companies has been one of the major topics as money market development is one of the global competitiveness indexes. Most of the previous studies investigate the effect of money market on development of manufacturing companies. The pillars of global development are strongly inspired by the theories of endogenous development. Development of manufacturing companies may also come from the following two channels: technological progress or enhanced production efficiency; growth factors of production and money markets. Money markets were not seen by the economic theory as directly relevant for development of manufacturing companies since they provide further avenues for investment

Levine (2004) reveals that countries with better functioning banks and financial markets expand faster and thus become more competitive. Hartmann, Heider, Papaioannou, Duca, and Marco (2007) clarifies that there are a number of ways in which the financial market framework conditions can be enhanced to rise the contribution of the financial system to innovation, productivity, growth and hence development of companies. Classens (2009) reviews many previous studies and concluded that as financial services industries develop, and as financial markets and products become more complicated and global, new regulatory and competition policy issues emerge. Accordingly, approaches to competition issues need to modify, important since competition policy in the financial sector is often already behind. Wurgler (2000) explained that developed financial markets are associated with a better allocation of capital comparing to countries with weak financial markets, financially developed countries increase investments in growing industries and decrease them in contracting ones. Therefore, the core advantage of financially developed countries is beyond the higher investment rate to the better allocation of resources to profitable investment projects.

Accelerator theory of investment which is based on the assumption that a particular capital of stock is necessary for the certain level of investment. The theory implies that there is a fixed relationship between capital and investment. The theory is relevant to this study in that companies including manufacturing companies take advantage of credit markets to accelerate investment and hence improve their performance (Akrani, 2010). This theory is relevant to the study in that capital investment leads to better and improved development of companies.

Internal fund theory of investment which suggests that investment depends on a certain level of profitability within the business. The theory has offered different level of explanations for example realized profits is a reflection of expected profits. The theory is applicable to this study in that when manufacturing firms take advantage of credit markets the current nature of the business in credit markets through realized profits reflect the expected profits in future (Joshua, 2014). The relevance of this theory to the study is that when company's profitability through participation in financial markets increase then development also increases.

The money market is used by a wide range of participants, from a company raising money by trading commercial paper into the market to an investor purchasing CDs as a safe place to park money in the short term. The money market is typically seen as a good place to put money due the highly liquid nature of the securities and short maturities. Because they are extremely conservative, money market securities offer meaningfully inferior returns than most other securities. However, there are risks in the money market that any investor needs to know, including the risk of nonpayment on securities such as commercial paper (Mishra, 2010).

Money market instruments are the securities that gives the right to the owner to get a fixed sum of money on a stated date. According to (Harris, 2010), money markets are the asset that allow banks, businesses, and the government to meet large, but short-term, capital needs at a low cost. The duration is overnight, a few days, weeks, or even months, but always less than a year. Meeting longer-term cash needs is fulfilled by the financial or capital markets.

Businesses need short-term cash because payments for goods and services sold might take months. Without money market instruments, they'd have to wait until payments were received for goods already sold. This would delay the purchases of the raw goods, slowing down manufacturing of the finished product. For a business to keep operating must pay fixed costs, like the rent, utilities, and wages. And putting extra investment into a money market instrument with the knowledge that it can get it out when it needs it. Because of that, money market instruments must be very safe. A business couldn't put extra cash into the stock market and hope prices haven't fallen when it needs the cash to pay bills. They must also be easy to pull out at a moment's notice and not have large transaction charges. Otherwise, the business would just keep extra cash in a safe. \$883 billion in money market instruments were issued thru the world, according to the Bank for International Settlements (Mankiw and Gregory, 2014)

Since money market instruments are generally so safe, it came as a surprise to most that they were at the heart of the 2008 financial crisis. In fact, the Fed had to create many new and innovative programs to keep the money market running. They were created quickly, so the names described exactly what they did in technical terms. This may have made sense to bankers but very few others (Maduka & Udejaja, 2016). The acronyms resulted in an alphabet soup of programs, such as the: money Market Investor Funding Facility, term Auction Facility, commercial Paper Funding Facility, term Auction Lending Facility, asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, and the primary Dealer Credit Facility and although these tools worked well, they confused the general public. The complexity created mistrust about the Fed's intentions and actions. Now that the crisis is over, these tools have been discontinued (Lankoski, 2016).

3. Methodology

The researcher used a descriptive design where issues related to money markets and development of manufacturing companies were described. The population of the research was 22 employees of Sulfo industries 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. The 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.

4. Results and Findings

According to table 1, respondents contacted strongly agreed that that money markets create trade opportunities(41%) while 32% of respondents said they agree and 23% of respondents said they neither agree nor disagree. 4% of respondents said they disagree. When asked to give reasons for their answers, respondents said that money markets create trade opportunities which facilitate development of companies. This led the researcher to the understanding that that money markets create trade opportunities through facilitating trade opportunities

Extent	Frequency	Percent
Strongly agree	9	41
Agree	7	32
Neither agree nor disagree	5	23
Disagree	1	4
Strongly disagree	0	0
Total	22	100.0

Table 1: The Extent to Which Respondents Agree That Money Markets Create Trade Opportunities

According to table 2, respondents contacted strongly agreed that that money markets leading to meeting short term capital needs(50%) while 32% of respondents said they agree and 14% of respondents said they neither agree nor disagree. 4% of respondents said they disagree. When asked to give reasons for their answers, respondents said that money markets facilitate meeting short term capital needs. This led the researcher to the understanding that that money markets create trade opportunities through facilitating meeting short term capital needs.

Extent	Frequency	Percent
Strongly agree	11	50
Agree	7	32
Neither agree nor disagree	3	14
Disagree	1	4
Strongly disagree	0	0
Total	22	100.0

Table 2: The Extent to Which Respondents Agree That Money Markets Leads to Meeting Short Term Capital Needs

According to table 3, respondents contacted strongly agreed that that money markets facilitate raising cash(64%) while 23% of respondents said they agree and 9% of respondents said they neither agree nor disagree. 4% of respondents said they disagree. When asked to give reasons for their answers, respondents said that money markets facilitate meeting raising cash. This led the researcher to the understanding that that money markets facilitate company development through facilitating raising cash

Extent	Frequency	Percent
Strongly agree	14	64
Agree	5	23
Neither agree nor disagree	2	9
Disagree	1	4
Strongly disagree	0	0
Total	22	100.0

Table 3: The Extent to Which Respondents Agree That Money Markets Facilitate Raising Cash

According to table 4, respondents contacted strongly agreed that that money markets facilitate buying and selling shares (59%) while 27% of respondents said they agree and 10% of respondents said they neither agree nor disagree. 4% of respondents said they disagree. When asked to give reasons for their answers, respondents said that money markets facilitate buying and selling shares. This led the researcher to the understanding that that money markets facilitate company development through facilitating buying and selling shares.

Extent	Frequency	Percent
Strongly agree	13	59
Agree	6	27
Neither agree nor disagree	2	10
Disagree	1	4
Strongly disagree	0	0
Total	22	100.0

Table 4: The Extent to Which Respondents Agree That Money Markets Facilitate Buying and Selling Shares

According to table 5, respondents contacted strongly agreed that that money markets facilitate large investments (55%) while 27% of respondents said they agree and 14% of respondents said they neither agree nor disagree. 4% of respondents said they disagree. When asked to give reasons for their answers, respondents said that money markets facilitate large investments. This led the researcher to the understanding that that money markets facilitate company development through facilitating large investments.

Extent	Frequency	Percent
Strongly agree	12	55
Agree	6	27
Neither agree nor disagree	3	14
Disagree	1	4
Strongly disagree	0	0
Total	22	100.0

Table 5: The Extent to Which Respondents Agree That Money Markets Facilitate Large Investments

The study also used regression models to analyze the relationship between two variables. Regression analysis is a powerful statistical method that allows one to examine the relationship between two or more variables of interest. While there are many types of regression analysis, at their core they all examine the influence of one or more independent variables on a dependent variable.

Correlations			
		Money Markets	Development of Manufacturing Industry
Money markets	Pearson Correlation	1	.895
	Sig. (2-tailed)		.344
	N	22	22
Development of manufacturing industry	Pearson Correlation	.895	1
	Sig. (2-tailed)	.344	
	N	22	22

Table 6: The Relationship between Credit Markets and Development of Manufacturing Industry in Rwanda
Source: Primary Data, 2018

According to Table 6, shows that there is positive relationship between two variables where by $r=.895$ this indicates money markets had positive impact development of manufacturing industry, the development of manufacturing firms depend on credit markets. Whereby credit markets is independent variables and development of manufacturing firms is dependent variables. This is so because so because when manufacturing companies participate in money markets, they get further opportunities for investment and hence more avenues to facilitate development thus true to say that money markets are directly related to development of manufacturing companies.

5. Discussion of Findings

In summary, based on the respondents the study found out that money markets create trade opportunities through facilitating trade opportunities, money markets create trade opportunities through facilitating meeting short term capital needs and that money markets facilitate company development through facilitating large investments.

6. Conclusions and Recommendations

The researcher concluded that the effect of money markets on development of manufacturing industries are that it creates trade opportunities, meeting short term capital needs, raising cash, buying and selling shares and facilitating large investments.

Manufacturing industries should continue participating in finance and credit markets because it is important in development as money markets create trade opportunities through facilitating meeting short term capital needs and that money markets facilitate company development through facilitating large investments. Manufacturing industries should

facilitate company development through facilitating buying and selling of shares. Employees should ensure that the company development is enhanced through finance and credit market participation.

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