



Linkages between CARE's VS&LAs with Financial Institutions in Rwanda

Case Study

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August 2007

Commissioned by CARE USA, Economic Development Unit (EDU)

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ACKNOWLEDGEMENTS

This case study was prepared with the kind help from the staff at CARE Rwanda, especially Glycérie Niyibizi and Innocent Rutikanga of the Economic Security Program, Delphine Pinault, Health & OVC Sector Coordinator, and Claudine Mensah, Assistant Country Director. I also wish to thank Laté Lawson, Senior Technical Advisor at CARE USA's Economic Development Unit, for his thoughtful feedback throughout the preparation of this case study. Finally, I want to thank CARE's colleagues on SEAD-chat listserv who provided very relevant comments on the research questions.

Executive Summary

CARE's Village Savings and Loan (VS&L) methodology is based on a belief that savings rather than lending services are more appropriate for and in higher demand by the rural poor. VS&L programs emphasize savings mobilization through unregulated and rather informal groups that depend on member savings for their loan fund capital rather than external loans. CARE Rwanda's CLASSE-Intambwe (Community Learning And Action For Savings Stimulation And Enhancement & Business) model is different in that Savings and Loan Associations are linked through federations (called Intergroupments) to external loan funds (provided by CARE) at the Banques Populaires, a network of credit unions located everywhere in the country. The SLA linkage to external credit is the subject of this case study, which describes its rationale, lists its strengths and weaknesses, and offers recommendations for VS&L and other savings-based financial service practitioners considering to replicate or adapt this model.

This linkage to external credit also needs to be seen in the specific context of Rwanda, a small land-locked country in Central Africa, with a very high population density of 328 inhabitants per square kilometer. While microcredit organizations in Rwanda barely reach the rural poor, the Banques Populaires have a strong presence in rural areas, but focused until recently for the most part on less poor people (such as salaried people, traders, and cash crop farmers). Thanks to the partnership with CARE, these credit unions have begun to reach the rural poor in line with their mission.

CARE Rwanda's Savings and Loan Associations (SLAs) are Accumulating Savings and Credit Associations (ASCAs) just like CARE Niger's MMD model and share most other features as well. SLAs are similar in size (7-30 members, average around 16) and receive the same training curriculum. SLA members meet and save every week into an internal loan fund. Members can take short-term loans from the revolving fund at an interest rate decided by the group, typically 5 or 10 percent per month on the principal, and they also contribute to a Social Fund, which can be used for emergencies and other non-productive needs such as medical insurance or school expenses.

SLAs in Rwanda also have certain unique features. CARE Rwanda typically does not promote new groups, but identifies and selects existing associations that are already formed (but are often inactive) before CARE enters a certain geographic area. Such associations are typically formed on the basis of a common productive activity (crops, animals, handicraft), and tend to require or at least favor ownership of some productive assets. Members of most SLAs are of mixed gender. Each SLA has a bank account with the local Banque Populaire into which any excess cash is deposited.

Perhaps the most innovative feature of CARE Rwanda's SLAs is their federation into Intergroupments (IGs) consisting on average of 25 to 35 SLAs from villages clustered in a given area. The role of these IGs is to represent SLAs vis-à-vis CARE, the local Banque Populaire, local authorities and others. Intergroupments also provide training and advice to existing SLAs, and often train new associations in the CLASSE-Intambwe methodology. The IGs' most important function is that of an intermediary between SLAs and the Banque Populaire to access credit.

Why the linkage with external credit? CARE Rwanda realized that the majority of members of CLASSE-Intambwe SLAs wanted larger loans than their internal loan funds could provide, and decided to make

CARE Credit Funds at the Banques Populaires of CLASSE-Intambwe target districts. The link to external credit was provided to open new economic opportunities within and beyond the farming sector. Whereas savings and internal lending activities of SLAs are considered protectional (income smoothing) microfinance, the link to external credit signifies a more promotional (income generating) use of microfinance. In addition to access to loans, SLAs received improved business training (Selection, Planning and Managing microenterprises, SPM) and in some cases were also linked to promising value chains.

CARE provides a Credit Fund of up to 10 million RWF (approximately \$20,000) per IG for loan disbursement to its member SLAs. SLAs can apply for loans as soon as one year after they have begun their weekly savings. Rather than applying directly to the bank, the SLA submits its business plan and loan application to the IG, which reviews, offers recommendations for improvement or returns the loan application until it deems it is strong enough to be accepted by the bank. Loans terms are the same as those for bank loans to regular members. The duration varies between 4 and 12 months, depending on the financing needs of the income-generating activity funded, and the annual loan interest rate is 14 percent (declining balance) plus 1 percent commission, to be paid back in monthly or quarterly installments. For the first cycle, the loan amount ranges between a minimum of 100,000 RWF (\$200) and 500,000 RWF (\$1,000). The SLA can decide whether the loan is used for a group income activity (which is most common) or for individual income generating activities by one or several members. Regardless, all SLA members are responsible for repaying the loan through a group solidarity mechanism.

The IG performs a loan application review and ensures that only sound loan applications reach the bank. The IG does not collect payments from SLAs, but monitors the loan repayment and assists SLAs whenever necessary. In return, IGs receive a 30 percent share of the loan interest revenue. This applies only to loans taken from the CARE Credit Fund, however, as banks are unwilling to “share” interest revenues on loans from its own funds. CARE Rwanda is currently in discussion with all stakeholders (SLAs, IGs and UBPR) to come up with sustainable loan terms agreeable to all. In addition to facilitating the linkage to external loans, IGs also perform other key services to SLAs, including business development services and business training.

Demand for external loans is higher than CARE Credit Funds have been able to provide so far. Not every SLA is interested and/or ready to submit a strong loan application, but interviews in the field revealed that there is a significant waiting list. Common uses of external loans are buying/selling of various agricultural products (beans, tomatoes, maize, sorghum, groundnuts); production and selling of banana beer; milk/butter (oil) production; honey; small livestock rearing; and handicraft production. The average external (first cycle) loan is \$634. The repayment rate of 93.5 percent is not as good as for internal loans, but satisfactory if one considers that all parties (IG, BP and SLAs) are still learning the procedures.

One of the most significant outcomes achieved through the linkage to external credit is that SLAs have access to loans up to four times the amount of their accumulated savings, which enables them to engage in bigger and potentially more profitable enterprises. Without the assistance by the IG these SLAs would not qualify for such loans. There are also some potential costs to an external loan: by depositing 25 percent of the loan amount on the SLA bank account as a guarantee, the available internal loan fund might become much less, unless the SLA sets aside a portion of the loan to continue serving this purpose. At the same time, due to leverage with an external loan, the internal loan fund might grow faster

depending on the profitability of the enterprises funded by the loan. External loans might not provide the same benefits for every SLA member, as a few dominating members might be using the bank credit to finance their enterprises, whereas the other members might not like the increased risk or see their access to internal loans reduced.

The following recommendations are meant for anyone interested in replicating CARE Rwanda's CLASSE model, but one should make appropriate adaptations to take into account the local context.

- Bank or MFI partner needed with strong presence in rural areas. For most African countries population density will be much lower than in rural Rwanda, so cost-efficiency will be harder to achieve.
- Strategy to replace CARE's credit fund with bank's own funds should include an interest rate that is high enough and competitive in the market place from the beginning for the bank partner to continue lending after CARE withdraws its credit fund.
- The goal should not be to link every SLA to external credit, as many might not be interested in or capable of using bank loans productively. Similarly, there should be a mechanism in place that prevents a powerful minority within an SLA to monopolize the decision making as to whether to use the internal fund as deposit for a bank loan or as internal loan fund.
- Access to loans should not discourage SLA members from saving, and should not be introduced too soon (two years after start of SLA training is recommended). Especially for very poor, it is important to allow them to accumulate their own savings and a minimum level of productive assets.
- At least as important as the credit linkage are non-financial enterprise development services (access to new markets and value chains, skill training, technology).
- Sustainability strategy: to develop IGs into business service centers or SLAs, with capacity to provide fee-based services. The sustainability of this approach depends critically on the capacity of IGs to deliver quality services to SLAs at full cost recovery.
- Clients need education on credit and consumer protection. It will also be advisable to let the financial partner ratify the new CARE code of conduct in microfinance (see Appendix 6).
- CARE should play more of a facilitation role and to be careful not to present the SLA members as its microfinance members but as potential good customers for the financial institutions.
- It will be ideal to emphasize from the inception the leverage or risk sharing to allow the financial institution to also share part of the risk. In this case, the UBP does not take any risk and resists lending its own fund to the VS&LAs, unless the 30 percent payment is waived. A clear cost-benefit analysis needed to take place at the beginning to ensure that the model is profitable for each party before it is launched.
- Last but not least, it will be advisable to bring the relationship with the financial institution at the board level as well, not only at the management level. This will help to convince the board members about the potential of the new market segment and could put pressure on them in delivering on both their social and commercial missions.

Acronyms

BNR	Banque Nationale de Rwanda
BP	Banque Populaire (People's Bank), a credit union
CHH	Child-Headed Household
CLASSE	Community Learning and Action for Savings Stimulation and Enhancement
ECOCOMF	Expanding Competitive Client-Oriented Microfinance Services
IG	Intergroupment (federation of SLAs)
IGA	Income Generating Activity
MFI	Microfinance Institution
MMD	Mata Masu Dubara (Women on the Move)
MoU	Memorandum of Understanding
NGO	Non-Governmental Organization
OVC	Orphans and Vulnerable Children
PLHA	Person Living with HIV/AIDS
RESAFI	Réseau d'Épargne Sans Frontières-Intambwe (Savings Network without Borders)
RWF	Rwandan Franc
SLA	Savings and Loan Association
UBPR	Union des Banques Populaires de Rwanda

PURPOSE

CARE's Village Savings and Loan (VS&L) methodology is a non-institutional savings-led alternative to credit-centered microfinance institutions. This model has proven especially successful and sustainable in poor, rural areas with bad infrastructure and low population density resulting in small loans and high transaction costs. Based on a belief that savings rather than lending services are more appropriate for and in higher demand by the rural poor, VS&L programs have emphasized savings mobilization through unregulated and usually informal groups that depend on member savings for their loan fund capital rather than external loans. One of the exceptions is the VS&L program by CARE Rwanda, in which Savings and Loan Associations (SLAs) are linked through federations (called Intergroupments, IGs) to external loan funds (provided by CARE) at the Banques Populaires. The main purpose of this case study is to critically document and analyze the SLA linkage to external credit in Rwanda. Taking into account the Rwandan context the case study describes the rationale for the linkage to external credit, lists strengths and weaknesses, and offers recommendations for VS&L and other savings-based financial service practitioners considering to replicate or adapt this model.

FINDINGS

Rwanda country context

The Republic of Rwanda is a small (26,300 square kilometers) land-locked country in Central Africa, with a population of slightly above 8.5 million (estimated for 2006). It has a very high population density of 328 inhabitants per square kilometer. Rwanda has a Human Development Index of 0.450 (rank of 159 out of 177 countries), and a GDP/capita at purchasing power parity of \$1,300 (estimated for 2005). The population in extreme poverty, living below \$1/day (2003), is 51.7 percent; population below \$2/day (2003) is 83.7 percent.

The economy consists largely of subsistence agriculture, with the majority of the population (83 percent) living in rural areas. Perhaps the most important economic development challenge for Rwanda is to improve agricultural productivity and investment to increase the incomes of the population living in rural areas.¹ The prevalence of HIV/AIDS is estimated at 3.1 percent among adults (2005). Rwanda has a very high proportion of orphans and vulnerable children (OVC): a total of 613,000 orphans (2001), 43 percent of whom orphaned by AIDS; and an estimated 101,000 children living in child-headed households. One-third of households are headed by women.

The microfinance sector has been growing fast. According to a sector assessment in 2005², close to US\$100 million was mobilized in the sector and \$85 million was extended to over 600,000 MFI clients as credit. Despite a relatively high penetration rate compared to other African countries only 21 percent of the active population (few below the poverty line among them) has access to formal financial services.

Member-owned savings and credit cooperatives (SACCOs, COOPECs) are the most numerous financial institutions in Rwanda. The Union des Banques Populaires du Rwanda (UBPR) – is the most significant one and also serves 36 percent of the total microfinance market and holds 60 percent of deposits and loans³. As of December 31, 2003, the value of deposits was RWF 20.1 billion, yet the value of loans was only RWF 11.9 billion. UBPR lent some of this excess to the banking system at a rate of 10-12 percent. Thus, UBPR is a net lender to the rest of the financial sector, while at the same time the rural sector is still constrained in access to finance. The low level of rural financing undertaken by UBPR is more a reflection of the limited absorptive capacity of the real sector, due to the lack of bankable projects, and the lack of organized cooperatives.⁴

Coopec Inkingi (60,000 depositors in 2005) and Coopec Ejo Heza (10,000 depositors in 2005) are recent entrants, with the former offering loans starting at 100,000 RWF (\$200), while the latter reaches a lower market segment with loan sizes between 20,000 and 70,000 RWF (\$40-140).

Microcredit institutions are concentrated in urban areas, with the major ones – RIM SA, URWEGO, Duterimbere, Vision Finance, Gitsubizo – with loan sizes ranging anywhere between 50,000-500,000 RWF (\$100-1,000), with monthly interest rates between 2-3 percent. The Banques Populaires are spread

¹ Chet Aeschliman, Fiacre Murekezi and Jean-Paul Ndoshoboye. (2005). Extending the Outreach of Rwandan Peoples' Banks to the Rural Poor through Village Savings and Credit Associations.

² Rwanda Microfinance Sector Assessment 2005 (Enterprising Solutions Global Consulting, LLC)

³ Ibid.

⁴ Nankani, Gobindi. (2005) Rwanda Diagnostic Trade Integration Study.

out in the entire country and while they have focused traditionally on less poor people (such as salaried people, traders, and cash crop farmers), they also take up a large share of the microfinance market. These credit unions mobilize member savings (with 55 percent of clients having balances between RWF 1,000 and 10,000) and provide loans at 1.16 percent interest per month (14 percent per year).

In addition to tontines and variants (such as the CARE-assisted savings and loan associations of this case study), the very poor rely mostly on friends, relatives and neighbors for their financial needs.

CARE Rwanda VS&LA Model: CLASSE-B

CARE Rwanda's CLASSE-Intambwe (Community Learning And Action For Savings Stimulation And Enhancement & Business) model was developed and further adapted between 1999 and 2004 over the course of three separately funded projects (ECOCOMF, CLASSE, SCN) which are also the main focus of this case study. These combined projects resulted in by 2004 (after five years) in 1,308 Savings and Loan Associations with 26,869 members. With all projects combined, by mid 2007, CARE Rwanda had trained 2,218 SLAs with 33,446 members (23,180 or 69 percent are women). The majority of SLAs are structured into (a current total of) 42 federations, called Intergroupments (IGs).

CARE Rwanda's Savings and Loan Associations (SLAs) are Accumulating Savings and Credit Associations (ASCAs), but unlike CARE Niger's MMD⁵ model, these are not time-bound. In other words, the SLAs do not divide up their net portfolio among the members after a certain time period of nine to 12 months. While CLASSE SLAs do periodically divide their net worth equally among all members, they do this through a slightly different mechanism without ever discontinuing the association. When members first start saving, SLAs typically set a common savings goal, often in the form of animal (usually goat) ownership or an improved dwelling for each member, or sometimes in the form of a group investment (cattle, mill, building). When an SLA reaches its savings goal, existing members can leave or new members enter the SLA.

Common Features of Savings and Loan Associations

- **Group Size:** The typical group size varies from seven to 30 members, with an average group size around 15-20.
- **Training:** When CARE (or partner local NGO) field staff first approach existing associations, these have received very little or no previous training and members do not yet save together. CARE starts by explaining how SLAs are organized and what the benefits as well as requirements are to become an SLA. Each association then elects its management committee and starts saving on a weekly basis in an amount decided by the members themselves. Rather than training each SLA individually, each SLA within a limited geographic area sends two representatives (its president and an advisor) to an intensive training phase, during which they learn about the role of the management committee, loan procedures, interest and penalties, internal rules, problem solving and conflict resolution. During the eight month training period, the CLASSE Intambwe trainer pays six visits to each participating SLA. Each SLA decides on a common savings goal and learns the basic procedures of savings, credit and payment of interest and fines. A significant challenge lies in introducing more democratic and gender-balanced management procedures within these associations as they had already established their own style in the years before the SLA training started. The group graduates after eight months following a formal evaluation (audit committee working properly, internal rules and regulations

⁵ The Mata Masu Dubara program started in 1991 by CARE Niger is the original Village Savings and Loan (VS&L) model. See Table 1 for a comparison between Savings and Loan Associations in Niger and Rwanda.

followed, regular savings, loan disbursement and cashbook keeping) by the CLASSE Intambwe trainer.

- **Savings and Loan Practices:** SLA members meet every week and contribute a fixed amount of savings, with amounts typically ranging from 50 RWF to 250 RWF (\$0.10-\$0.50) into an internal loan fund. Excess money is kept in a wooden box with three locks held by different members of the management committee. Members can borrow from the revolving fund at an interest rate decided by the group, typically 5 percent or 10 percent per month on the principal, for a duration between one to three months. Loan amounts depend on the availability of funds, demand by members and individual repayment capacity. Internal loan amounts can vary between 500 RWF to 10,000 RWF (\$1-20), but typically average around 2,000-4,000 RWF (\$4-8) depending on the group's weekly savings amount and maximum loan size. Almost all groups keep written records.
- **IGA promotion:** Loans from the internal loan fund are to be used for income generating activities only, but some exceptions exist. In order to streamline individual savings into increased investments and thus higher incomes, CARE Rwanda implements a formal IGA capacity-building model. This training model consists of three interrelated modules i.e. selection, planning and management (SPM) of an IGA. This three-stage approach reflects a classic understanding of best practices in businesses promotion, i.e. market research (*selection*), business planning (*planning*) and financial management (*management*).
- **Social Fund:** The majority of SLAs also have a Social Fund which is generated from additional member contributions. Often the nominal amount of this contribution is the same as for the weekly savings to the rotating loan fund, but is only paid in once every four weeks instead of every week. The Social Fund can be used to help members with social emergencies (such as sickness or death of a household member) in which case a member receives a grant that does not have to be paid back, or for social needs such as medical insurance or school expenses, in which case a member receives an interest-free loan, that needs to be paid back often with a flexible repayment period.
- **SLA as entry point for other programming:** Several programs have an HIV/AIDS awareness/mainstreaming component, whereas some projects are specifically targeting people living with HIV/AIDS (and include health/sanitation/food security programs). In at least one project, ECOCOMF, CARE engaged in value chain analysis for certain agricultural products and helped SLAs gain access to new markets.

Unique Features of Savings and Loan Associations in Rwanda

- **Group formation:** In fact, CARE Rwanda typically does not promote new groups, but identifies and selects existing associations that are already formed (but are often inactive) before CARE enters a certain geographic area. These associations exist everywhere in Rwanda and have been promoted since 1985 by the government as part of its poverty reduction strategy. Associations were typically formed on the basis of a common productive activity (crops, animals, handicraft), and tend to require ownership of some productive assets. The members of those associations have similar household conditions and live in the same locality ("colline"/hill) and are supposed to work to solve their problems jointly. Landless households tend to be excluded, but have in some cases formed their own associations. The same holds true for programs targeting people with HIV/AIDS in which participants are assisted in forming their own SLAs.
- **Gender:** Most SLAs are of mixed gender, because most existing associations were already of mixed gender before introduction of the CLASSE Intambwe model. Empowerment of women is actively promoted, even though traditional power structures within existing associations are often hard to change.
- **Collective savings/investment goals:** Each SLA sets a common savings goal (for instance a goat for each member, an improved roof for each household, a meetinghouse for the group, etc.) and once

reached, they set a new one. Similarly, SLA members often engage in a joint economic activity or investment (for instance a village phone, a mill).

- **Bank Account:** Each SLA opens a bank account with the local Banque Populaire (People’s Bank, a credit union), as soon as the weekly savings begin. Fees for opening a bank account are currently RWF 3,700 (\$5.50), but will supposedly be waived in future. After each weekly meeting, any excess cash is deposited on the SLA bank account. Due to a high number of Banques Populaires in rural Rwanda, most SLAs are near a bank. It is quite common that SLA members become individual members (individual accounts) with the Banque Populaire as well. Interest on savings is 4.5 percent.
- **Intergroupment (Federation):** On average 25 to 35 SLAs from nearby villages in the same District form an Intergroupment (IG) composed of 14 (in most cases) representatives of participating SLAs. The role of the IG is to represent its member SLAs vis-à-vis CARE, the local Banque Populaire, local authorities and others. Intergroupments also provide training and advice to existing SLAs, and often train new associations in the CLASSE-Intambwe methodology. The Intergroupment’s most important function is that of intermediary for SLAs with the Banque Populaire to access credit. By mid 2007, 42 IGs had been formed, linking their SLA members with 18 separate BPs. See Section 3 for a more comprehensive overview of the role of IGs.
- **Link to formal credit:** see Section 3.

Table 1. Comparison between Savings and Loan Associations for CLASSE (Rwanda) and MMD (Niger)

	RWANDA – CLASSE	NIGER – MMD ⁶
Size	7-30 people, average 16	groups tend to be bigger, average 29
Gender	mixed gender	women only
Type of association	ASCA (not time-bound)	time-bound ASCA (9-12 months)
Savings	weekly	weekly
Loan duration	one-three months	one-three months
Interest rate	typically 10 percent per month	typically 10 percent per month
Internal loan use	mostly for productive use	mostly for productive use
Social Fund	yes	yes
Record Keeping	written	oral often, written sometimes
Bank account	yes	not common, but increasing
Market environment	rural accessible with cash crop production activities	rural landlocked with food producing potential or accessible with cash crop production activities
Population density	very high	very low

Target Group

- **Economic aspects:** CLASSE targets predominantly rural households engaged in agricultural production or animal husbandry. Most households tend to have some productive assets related to these sectors and have so far been excluded from the formal banking system.
- **Poverty Level:** Client poverty is not assessed routinely. Most evaluations indicate that there is wide range of poverty levels of SLA members. A study⁷ done in Nshili District (Gikongoro) concludes that SLA members are significantly poorer than regular Banque Populaire clients. Most bank clients are

⁶ Data about CARE Niger’s Mata Masu Dubara taken from Allen, Hugh and Grant, William (2003) CARE’s Mata Masu Dubara (Women on the Move) Program in Niger. Successful Financial Intermediation in the Rural Sahel. Journal of Microfinance. Journal of Microfinance, Vol 4 No 2. and Allen, Hugh. (2002). CARE International Village Savings and Loan Programs in Africa. Microfinance for the Rural Poor that Works.

⁷ Hakizamungu, Ephron. (2005) Étude comparée de la Microfinance à base communautaire avec les Institutions de Microfinance dans la réduction de la pauvreté en milieu rural.

*Umukungu*⁸ (food rich), whereas the majority (74 percent) of SLA members are among the *Umukene wifashije* (resourceful poor), those at and just above the poverty line. The remaining 24 percent belong among the *Umukene* and *Umutindi*, who live below the poverty line. Similarly, an internal evaluation⁹ of a broad sample of SLA members reveals that 11 percent of SLA members have more than two hectares of land, 52 percent have between one and two ha and 37 percent own less than one ha. Moreover, more than half of this last category own cattle and derive their income from livestock instead of farming. The same study concludes that the majority of SLA members are those who own some land or other asset to generate an income, whereas the very poor and landless are not reached or drop out because they cannot meet the weekly savings goal and drop out.

- Very vulnerable groups, especially those infected and affected by HIV/AIDS (widows, child-headed households, people living with HIV/AIDS), have also been introduced to the CLASSE-Intambwe model, which is being implemented in combination with other non-financial (especially health) services. Even so, there are indications that the weekly savings requirement can pose a hardship on SLA members, especially those facing food insecurity for long periods of time.

SLA Linkage to External Credit

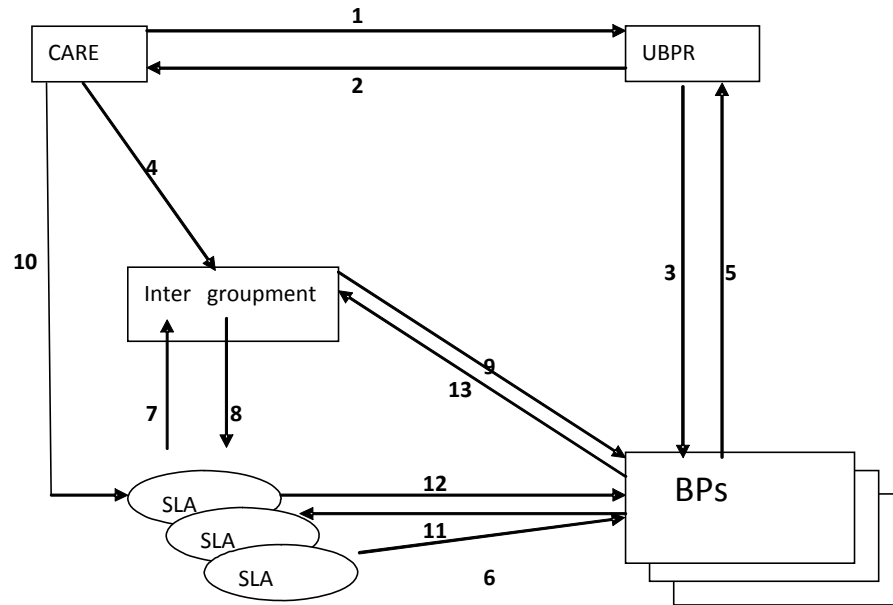
- **History and rationale**¹⁰: CARE Rwanda realized that the majority of members of CLASSE-Intambwe SLAs wanted larger loans than their internal loan funds could provide, and decided to make supplementary credit funds available to meet this demand for credit. Initially, these CARE Credit Funds were entrusted to community development funds managed by the districts. An evaluation at the end of a pilot project concluded that the funds had not been managed well and repayment rates were very poor. In another pilot project, CARE provided credit funds to the IGs, but new legislation and lack of sufficient skills by the IGs led to subsequent projects (ECOCOMF and CLASSE-B) to follow a different approach by housing the CARE Credit Funds within the Banque Populaires of CLASSE-Intambwe target districts. This new delivery mechanism was also warranted as the result of a new regulation by the National Bank which forbids any natural person who is not approved by the NBR from carrying out savings and credit activities. This link to external credit aimed to revitalize small-scale farming and open new economic opportunities within and beyond the farming sector which people may take advantage of. In other words, whereas savings and lending activities of SLAs are seen as *protectional* (income smoothing) microfinance, the link to external credit signifies a more *promotional* (income generating) microfinance. Efforts have been made to provide IGs with enterprise development skills and link SLAs to promising value chains, but such efforts have been mostly on an *ad hoc* basis.
- **Implementation:** (See Figure 1)
 - **Intergroupment formation:** Formation and capacity building of IGs takes place soon after the SLAs are being trained. This phase lasts eight months and includes legal registration of the IG with the district and ratification of a collaboration memorandum by the associations.

⁸ See Appendix 4 for the six poverty categories identified by the PPA as part of Rwanda's PRSP.

⁹ Niyibizi, Ange. (2006) Project CLASSE-B. Rapport d'Evaluation Final.

¹⁰ Chet Aeschliman, Fiacre Murekezi and Jean-Paul Ndoshoboye. (2005). Extending the Outreach of Rwandan Peoples' Banks to the Rural Poor through Village Savings and Credit Associations.

Figure 1. CARE Rwanda’s SLA-BP loan process¹¹



Nature of Responsibilities :

1. CARE provides UBPR with a revolving credit fund entitled “CARE Credit Fund”
2. UBPR manages the “CARE Credit Fund”
3. UBPR exercises financial control over the «CARE Credit Fund» at the BP level
4. CARE supports the inter-group through training
5. The BPs provide financial reports on the credit fund to UBPR
6. The SLA opens a term deposit account in its people’s bank
7. The SLA submits a loan application dossier to its Inter-Group
8. The Inter-group analyses the SLA loan application
9. The Inter-Group submits approved loan dossiers to the people’s bank
10. CARE organizes, structures and trains the SLAs
11. The BPs grant the loan from the Credit Fund to the SLAs
12. The SLAs repay their loans to the BPs
13. The BPs grant 30% of interest received on the Credit Fund to the Inter-Group

¹¹ Vita, Massimo. (2005). Project CLASSE-B. Review and Monitoring. Evaluation for IFAD.

- **Loan fund:** Since 2004 CARE has been providing a credit fund of up to 10 million RWF (approximately \$20,000) per IG for loan disbursement to its member SLAs. These credit funds, a total of \$267,500 in 2007, are managed by the UBPR and used for disbursement to SLAs by local BPs. In CLASSE-B, for example, after one year of savings by 250 SLAs (with a combined savings of 25 million RWF, i.e. 100,000 RWF=\$200 per group on average), CARE availed a total credit fund of 27 million RWF. These 250 SLAs formed nine IGs of on average 28 SLAs (between 17 and 42) and were linked with four different Banques Populaires in the same geographical area (Umutara).
- **Loan application:** An SLA can apply for a loan of up to 500,000 RWF (approximately \$1,000) for the first loan. As soon as CARE credit funds are on deposit with a BP, SLAs can apply for loans, which is often as soon as one year or less after SLAs have begun their weekly savings. Rather than applying directly to the bank, the SLA submits its business plan and loan application to the IG, which reviews, offers recommendations for improvement or returns the loan application until it deems it strong enough to be accepted by the bank. Evidence shows that the IGs' credit committees are very effective at screening creditworthy loan applications: loans submitted for review to the IG are often rejected or returned, whereas those that are approved are almost always accepted by the bank. An IG credit committee takes many factors in consideration to approve a loan (and a specific amount): in addition to soundness of the business plan, the IG credit committee also investigates whether the SLA is conducting regular meetings and members are paying their agreed weekly savings, whether they repaid in full the last loan, and whether they have the required 25 percent in savings deposited on their account. In fact, the IG fulfills many of the duties of the credit officer.
- **Loan terms:** Loans terms are the same as those for bank loans to its regular members. The duration varies between four and 12 months, depending on the financing needs of the income-generating activity funded. The annual loan interest rate is 14 percent (declining balance) plus 1 percent commission, to be paid back in monthly or quarterly installments. For the first cycle, the loan amount ranges between a minimum of 100,000 RWF (\$200) and 500,000 RWF (\$1,000) for CLASSE/ECOCOMF/SCN SLAs, while these amounts are reduced for more recent projects (NIPS, SCORE) to a minimum of 20,000 RWF (\$40) and a maximum of 200,000 RWF (\$400) for SLAs consisting of very vulnerable persons (PLWHAs, OVCs, and *Nkundabanas*¹²). In order to qualify for a loan, an SLA needs to have saved at least 25 percent of the loan amount in its bank account. Loans can only be used for IGAs such as production, processing and trade activities. Not using a loan for the stated purpose on the loan agreement is considered a serious violation of the rules. If the nature of the business justifies it, the BP may offer a grace period between the time of the loan disbursement and the first repayment. The SLA can decide whether the loan is used for a group income activity or an individual IGA. Regardless, all SLA members are responsible for repaying the loan through a group solidarity mechanism. While it is not strictly required for an SLA to use a bank loan for a collective income activity, this seems a practice encouraged by IGs. Some SLAs, however, use the external credit for on-lending to group members at their established internal interest rate (which is much higher, i.e. 5 or 10 percent per month versus 14 percent per annum). Other requirements to qualify for a loan are that an SLA needs to have set bylaws, have elected officers, and register itself with the local authorities. An SLA must have also established its management committee and must be trained by the group advisor and a member of the credit committee of the IG about loan conditions and mutual group responsibility towards repayment, as well as the importance of savings and the absolute necessity to pay back a loan according the terms of the loan contract.
- **Roles of each stakeholder:**
 - **Banques Populaires:**

¹² *Nkundabanas* are adult community volunteers who mentor child-headed families.

- The Union des Banques Populaires de Rwanda (UBPR – the national federation of Rwandan credit unions) with 149 affiliated Banques Populaires (individual credit unions) offers savings and credit to the population mainly in rural areas but its asset-based collateral requirements limit poor clients from accessing its loan products, even though they are the majority of its savings clients. UBPR’s clientele includes civil servants as well as farmers. Through collaboration with partners such as CARE Rwanda, the institution has been gradually shifting its focus to poorer market segments, to better reflect its mission to reach the rural poor.
- Agreement with Banque Populaire: CARE signs a Memorandum of Understanding¹³ with the Banque Populaire before depositing CARE credit funds, with the following responsibilities for the Banques Populaires:
 - Open term deposit accounts in the name of each prospective borrower SLA.
 - Analyze and decide on loan application within two weeks after they are submitted by SLAs, prepare and sign loan contracts, and disburse the loan amount in timely fashion.
 - Follow up on borrower activities and inform IGs about upcoming due payments and loan maturities; provide CARE and UBPR with monthly reports.
 - Pay commissions (30 percent of loan interest) to the IG in accordance with the terms laid down in the agreement.
 - The Loan Officer analyses SLA loan applications and works out the loan contract with repayment plan. In collaboration with IGs the loan officer also organizes meetings for SLAs and trains them about loan procedures and repayment. It is important to realize that the Loan Officer’s responsibilities are virtually the same as they would be for loan disbursement to “traditional” Credit Union members and are performed in the Credit Union building. Many of the additional activities needed to serve the inexperienced SLAs (credit education, business plan assessment and strengthening, follow-up, etc.) are done by the IG as explained elsewhere.
 - The UBPR is in principle in favor of progressively replacing the CARE credit funds with its own funds: 50 percent of the CARE credit fund after the first year and 100 percent and beyond in the second phase, but even though stipulated in the CARE-UBPR MoU, this has not really happened until now because UBPR does not want to pay a 30 percent share of interest revenue from loans lent from its own funds.
- **Intergroupments:**
 - Because of the multitude of value-adding functions performed, IGs are the cornerstone of CARE Rwanda’s CLASSE-Intambwe model. In fact, as suggested in a key strategic review¹⁴, IGs have begun (in some places) to act as “Business Centers” that assist in identifying business ideas taking into account the competitive advantages of the community
 - *Representation:* the IG is in essence a federation of SLAs (numbering typically about 30) and represents the interests of its SLAs with the local authorities, NGOs as well as to some extent the private sector.
 - *Credit intermediary between BP and SLA:* As explained above, the IG fulfills a crucial loan application review and screening function, ensuring that only sufficiently profitable business projects reach the BP. The IG does not collect payments from SLAs, but plays nevertheless a crucial role in ensuring that repayments are made

¹³ See Appendix 5 for an example of a Memorandum of Understanding between CARE and a Banque Populaire.

¹⁴ Akue, Vincent. (2004) Strategic Review and Realignment of Economic Security Program in Rwanda.

according to the loan contract. As most SLAs are new to formal credit procedures, IG representatives spend much time traveling to SLAs to educate them on repayment requirements and sometimes to intervene in case of payment difficulties or conflicts within the SLA.

- *SLA capacity building:* An IG establishes four different committees (management, credit, technical and surveillance) and receives SPM training as well as technical training in basic accounting, financial planning, management, production enhancing and value adding techniques, marketing, and monitoring and evaluation. The IG uses these newly acquired skills to train SLAs in SPM, provide business counseling and advice, etc. A mid-term evaluation of ECOCOMF¹⁵ revealed that SLAs rate training and business counseling as the most valuable service provided by the IG, followed by addressing concerns and facilitating the exchange of ideas and experiences among SLAs.
- *Market Development:* A report¹⁶ by Lucas Black (Sector Specialist, Private Sector Development) notes the linkages already established between IGs and private sector players and traders. Several IGs have market coordinators who have been instrumental in helping SLAs gain access to new markets for their produce, such as grains, beans, tomatoes, honey and handicrafts. Both SLAs and IGs use cell phones to access market information and negotiate better prices. However, it is clear that IGs are in need of additional training themselves if they are to perform these member services properly. During field interviews, IG representatives themselves expressed the need for more training and technical assistance, especially in more advance accounting/finance, market research and business feasibility assessment.
- *Reporting:* The IG is also the point of collection of monthly SLA reports on income activities, which they are supposed to forward to CARE. These data are little used by CARE staff, it seems, whether for performance monitoring or management purposes.
- *Compensation:* As part of the MOU with CARE, the Banque Populaire pays 30 percent of its interest revenue on SLA loans to the IG to pay for services that cannot be cost-efficiently performed by Banque Populaire loan officers. IGs also charge a one-time membership fee from each SLA member. In some cases, IGs also engage in their own income activities. IGs do not charge SLAs for business counseling and loan application review. Feedback from CARE staff as well as the IGs themselves indicates that the income earned by IGs is not nearly enough to pay for the services performed by them, which is a serious obstacle to sustainability of the bank linkage model.
- The IGs perform a number of other basic functions, including:
 - Analyse, sign and forward the projects and loan applications drawn up by SLAs to BPs for their consideration;
 - Monitor use of loans granted by BPs to SLAs, ensuring that the proceeds are used for their declared purposes, and that repayment schedules are respected;
 - On behalf of the BP, encourage or persuade as needed the SLAs to repay their loans in time and in full;
 - Promptly submit regular monthly reports to CARE regarding all micro project activities;
 - Evaluate and examine the progress made by SLAs, and develop mechanisms and activities to support their strengthening; and
 - Submit monthly reports to women's councils and district authorities on the state of progress of activities (for information purposes).

¹⁵ CARE Rwanda. (2005) ECOCOMF mid-term evaluation report.

¹⁶ Black, Lucas. (2005) Technical Assistance Report for CARE Rwanda's Economic Security Strategy.

- **RESAFI:**
 - RESAFI, or Savings Network without Borders-Intambwe, started as a network of 12 local NGO partners of CARE trained in the CLASSE-Intambwe methodology. One of the objectives of RESAFI is to act as an umbrella organization of all SLAs and IGs in Rwanda, and provide its members with technical support in strategic planning, representation at the national level, as well as provision of training, counseling and exchange of experiences.
 - While RESAFI might have been envisioned at one time as an exit strategy for CARE’s involvement with training and organizing SLAs/IGs, this did not fully materialize as most of original NGOs are currently not funded or actively engaged with CLASSE-Intambwe, due to lack of funding and capacity building. RESAFI still has an office in Kigali, and some of the NGOs are still active partners of CARE in ongoing projects, but CARE has not yet decided on a future strategy for RESAFI.
- **CARE**
 - In addition to training the IGs and the SLAs, CARE also facilitated the linkage with the BPs. CARE organized training for bank staff together with CARE field staff to sensitize bank personnel about poverty issues and to assist them in dealing with poorer clients than they are used to.
 - CARE has provided the funds to capitalize the credit funds, amounting to \$265,000 as of mid 2007. Provide technical training in accordance with the requests and training needs of SLAs and IGs. In fact, these credit funds are guarantee funds, leaving the risk of non-repayment with CARE.
 - CARE also works in close collaboration with IGs to ensure that they comply with their contractual obligations, especially regarding the monitoring and recovery of loans granted to member associations.
- **Cost recovery and sustainability**
 - The cost per client for CLASSE-Intambwe is \$38. This is higher than the typical range for Africa between \$18 and \$30¹⁷, and does not include the cost of the CARE credit funds.
 - CLASSE-Intambwe’s strategic plan for sustainability seems to hinge on two pillars: sufficient technical capacity with the IGs and/or RESAFI to maintain, improve and expand CLASSE-Intambwe, and willingness on behalf of the Banques Populaires to lend to SLAs without a credit guarantee fund. Neither of these objectives has been fully achieved at this time. The UBPR is not willing to lend (from its own funds) to SLAs below its regular interest rate of 14 percent. In other words, in order to compensate the IGs for their intermediation role, they might have to charge SLAs directly. At the same time, the current “commission” to IGs does not cover the full cost of their services. In addition, IGs are in need of additional capacity building services to transform into sustainable membership organizations.

Achievements

An evaluation after three years of CLASSE-B and ECOCOMF, the earliest projects linking SLAs to external credit, yielded the following performance data:

Table 2. Performance data CLASSE-B and ECOCOMF (2006) after 3 years

¹⁷ Allen, Hugh. (2002). CARE International Village Savings and Loan Programs in Africa. Microfinance for the Rural Poor that Works.

Number of participants	17,885
Percent of female participants	68.2 percent
Number of SLAs	1,086
Number of IGs	16
Average # of participants per SLA	16.4
Average # of SLAs per IG	68
Average of weekly saving per participant	\$ 0.18
Annual savings mobilized per participant	\$ 9.36
Average of weekly saving per SLA	\$ 3.02
Annual savings mobilized per SLA	\$ 157
Cumulative value of savings for all SLAs	\$ 155,158
Average cumulative savings per SLA	\$ 143
Cumulative Social funds mobilized	\$ 37,102
Average cumulative social funds per SLA	\$ 34
Total value of the internal loans	\$ 348,325
Number of internal loans	70,946
Average internal loan size	\$ 4.59
Number of internal loans per participant	5
Repayment rate (internal loans)	97.3 percent
Total value of external loans disbursed	\$ 226,423
Number of external loans disbursed	348
Average external loan size	\$ 634
Repayment rate (external loans)	93.5 percent

- **Internal Savings and Loans:**

- Most SLAs set weekly savings rate per participant between RWF 50 and 150, which translates into annual savings mobilization of approximately \$10 (RWF 5,000) per member or \$150-200 per SLA.
- SLAs tend to increase their savings rate over time. The final evaluation of CLASSE-B found that after one year, 52 percent of the SLAs had increased their weekly savings amount (while 38 percent had not changed their weekly savings amount, and 10 percent had decreased the amount). SLAs say that the reason for increasing savings rates after some time is to reach their common savings goals (this is often purchasing livestock) more quickly. On the other hand, the mid-term evaluation¹⁸ of ECOCOMF found that after one and a half years of savings the average savings amount per member was quite low at 1,229 RWF (approx. \$2.50), and very few SLAs increased their savings rate from 50 to 100 RWF per week¹⁹. However, the SLA members in ECOCOMF had comparatively less potential for improving income generation opportunities than those of CLASSE-B. It is not clear therefore whether access to external credit negatively affects the SLA's internal savings mobilization.
- While on the one hand, SLA members might be inclined to save less because of access to bigger loans from the banks, on the other hand the 25 percent deposit requirement for loans from the CARE credit fund might be an incentive for SLAs to save more. According to CARE Rwanda program staff, the 25 percent savings requirement is exactly set up for that purpose, i.e. to encourage people to keep saving as they have access to bigger loans.

¹⁸ CARE Rwanda. (2005) ECOCOMF mid-term evaluation report.

¹⁹ To answer to this question, one might try to compare the savings rates between SLAs with and without access to external credit and who are otherwise very similar in terms of variables (poverty, socioeconomic conditions, health status...) that might affect savings behavior.

- Loans from internal SLA funds are to individual members and are small (In CLASSE-B, for example, an evaluation report established that the average internal loan size had been around \$14), but significant for household consumption smoothing purposes.
- The utilization of loans to savings is rather low. Even after three years, the total amount of internal loans disbursed is just twice the amount of savings mobilized. This may indicate that there is relatively low interest in internal loans, or that savings are not fully available for internal loans, if for instance savings are deposited with BPs as collateral for external loans. According to CARE Rwanda staff, many SLAs use an external loan to increase the internal loan fund. As a result, the internal savings fund is deposited in the bank in return for a four times bigger loan that can be used for bigger and longer-term loans. The interest rate remains the internal rate, usually 10 percent per month, although some groups have reduced this to 5 percent.
- Repayment is more flexible than for external credit and the repayment rate is good (97.3 percent).
- Social Funds: Savings to the social fund are less than to the internal loan fund. A typical practice is that the SLA members save the same amount into the social fund as into the internal loan fund, but only once a month instead of every week. Social funds are used by members for emergencies (death or sickness of a family member) or certain other non-productive uses, especially paying for children's education. Another common use is to pay the annual dues for membership in the government-run health insurance scheme (mutuelle de santé). In fact, the Banques Populaires provide access to health insurance by extending credit to associations of poor households that typically would not have individual membership. The goal beyond providing access to financing for poor households to attain health care insurance is to attract the group loan participants to become individual credit union members that will access the savings and credit services offered by the credit unions.
- **External Credit:**
 - The average external (first cycle) loan is \$634.
 - The repayment rate of 93.5 percent is not as good as for internal loans, but satisfactory if one considers that all parties (IG, BP, and SLAs) were still learning the procedures. Some repayment issues resulted from misunderstanding or misinterpreting repayment procedures.
 - Loans are issued to the SLA, which typically uses the loan for a group income activity to ensure risk sharing is as large as possible.
 - Common uses of external loans are buying/selling of various agricultural products (beans, tomatoes, maize, sorghum, groundnuts); production and selling of banana beer; milk/butter (oil) production; honey; small livestock rearing; and handicrafts.
 - SLA demand for external loans is higher than CARE credit funds can provide. So far, only about 25 percent of SLAs have received loans from credit funds in the earliest programs (ECOCOMF and CLASSE). Not every SLA is interested and/or ready to submit a strong loan application, but interviews in the field revealed that there is a significant waiting list.
- **Outcomes:**
 - Outcomes achieved through SLA:
 - Increased savings, paid out in the form of animals or any other in-kind savings goal for each member of the SLA. As is the case with SLAs elsewhere, these savings grow faster thanks to the interest revenue from internal lending. Thanks to the availability of an external loan, these savings have the potential to grow even faster, either if the profits generated from a collective income activity or the interest income on bigger loans to individual members result in higher income than would have been generated from the savings fund alone.
 - Increased individual initiative for business; self-esteem and participation in socio-economic activities;

- Improved household socio-economic security (food security, health, clothing and housing, education for children and gender equity);
- Increased availability of cash to households (from savings and loans), both for productive and protective needs.
- A CLASSE-B evaluation²⁰ reports that one-third of SLA participants mention that a benefit of being an SLA member was to be able to engage in an income activity (which was not possible before). Two other frequently mentioned benefits of SLA membership are social connection with others (getting out of isolation) and being able to save regularly.
- Many SLAs have used their social fund to purchase government provided health insurance for all their members at cost of RWF 3,500 (\$7) per household per year.
- Outcomes achieved through Bank Linkage (intermediated by IG)
 - Each SLA has a bank account with the Banque Populaire, which is used to deposit any excess cash after internal loans have been met from savings fund. The location of the BP is only a short distance from most villages within their target area. As a result, SLAs have a convenient and safe place to deposit excess liquidity.
 - High numbers of (better-off) participants have also become individual members of the Banque Populaire and opened an account to deposit additional household savings, and a few have obtained individual loans. CARE Rwanda does not track this, so exact numbers are not available.
 - As all Banque Populaire members have voting rights, representatives of SLAs can advocate for their specific interests.
 - SLAs have access to loans up to four times the amount of their accumulated savings. This additional capital is either used to fund collective income activities with the resulting profits adding to the group fund, or to fund income activities by individual members with the resulting interest income adding to the group fund.
 - IGs have enhanced income opportunities by SLAs through business training, counseling and facilitating access to new markets. Thanks to the intensive review by the IGs, only high-potential business plans are submitted for a loan application with the BP. SLAs who are not capable or willing to invest a bank loan productively are not forced to take a loan.
 - SLAs are treated as regular BP members, with the same loan terms applied to them. However, without IG assistance (in loan application screening and enforcing repayment) the BP would not be able to serve these new clients cost-effectively. Even within the current arrangement the BP is only willing to pay 30 percent of interest revenues to the IG because CARE is providing the funds at no cost to the BP.
- Impact on the microfinance sector?
 - The primary impact of the financial linkage on the Rwandan financial sector is integration of the formal and informal financial sectors. The CARE-UBPR partnership has resulted in providing a safe place for SLAs as well as their individual members to save, hence mobilizing new savings funds for the BPs. More importantly, the BPs have found in the SLAs a new rural and previously untapped market for loans.
 - This model also fits within the national microfinance policy, which leaves SLAs unregulated, while strictly regulating all deposit-taking and microfinance institutions. Previously CARE had considered assisting IGs in becoming savings and credit cooperatives, but tedious procedures and difficult capital requirements to establish these make the linkage with BPs a much more feasible alternative.

²⁰ Vita, Massimo. (2005). Project CLASSE-B. Review and Monitoring. Evaluation for IFAD.

- Currently no similar initiatives seem to exist yet in Rwanda, but if UBPR manages to continue lending to SLAs without CARE involvement, this model will surely be expanded and replicated by other savings and credit cooperatives and perhaps microfinance institutions as well.

EVALUATION

The following analysis is based on findings obtained directly by the consultant from interviews with CARE staff and key participants involved with the BP-SLA credit linkage (SLA members, IGs and BP staff) as well as indirectly from an extensive reading of previous consultancy reports, evaluations and strategic recommendations, both by external consultants as well as staff of CARE Rwanda and CARE International.

Strengths	Weaknesses
<ul style="list-style-type: none"> • The bank linkage provides SLAs and members access to a broader range of financial services: in addition to a secure place to deposit savings, SLAs have access to bigger loans than they are able to provide by themselves. Loans with the BP are also (much) cheaper and for longer terms. Conversely, the linkage mechanism helps banks with a poverty mandate to reach poor clients in a cost-efficient way through bulk loans to SLAs instead of individual tiny loans to their members. • Thanks to a rigorous screening mechanism by the IG, only SLAs who can identify and manage profitable enterprise opportunities receive a bank loan. Especially for the many agricultural smallholder reached by CLASSE-Intambwe, the link to external credit fills in a void that is left by the absence of contract farming in Rwanda²¹. For smallholder farmers the CARE credit funds are often the only source of loans for crop production and other farm activities. • The active intermediation of the IG between demand and supply of loans is the key to success of the CLASSE-Intambwe model. Without the assistance of the IG, the BP would not be able to serve this market segment (SLAs) cost-efficiently. The strengths of the IG are its capability and efforts in screening (and strengthening) loan applications and active role in ensuring timely repayment of loans. The IGs are well managed and their members very motivated, as is evident from the (mostly unpaid) time spent by its members in assisting SLAs. • The UBPR and its member BPs have proven to be committed partners, who consider the IGs and SLAs as valued clients. One of the major advantages of UBPR as CARE's partner is its dense network of member BPs spread out in all rural areas. As deposit-taking institutions, BPs provide not only access to loans, but also to even more demanded savings services by all SLAs and a large proportion of its members. UBPR has also expressed a willingness to collaborate with CARE in the development of appropriate rural financial products (seasonal credit, leasing schemes, educational loans, etc.) to respond to their client's evolving needs. 	<ul style="list-style-type: none"> • Access to loans might be a disincentive to save. In some cases this might have taken place, while in others there is no evidence of this.²² • External loans are typically for group enterprises. As a result, there is a real trade-off in using the SLA's mobilized funds as collateral for a bank loan or as a source for internal loans. If the bulk of internal funds are deposited as collateral, there is a shorter supply of internal loans and the internal fund will yield a lower return (unless profits of loan-funded group enterprise make up for the loss of internal interest revenues). • There is a possibility that the most influential SLA members dominate the decision-making regarding applying for and using external credit. • Access to external loans is "subsidized" by IG members volunteering their time and CARE providing loan capital to the BPs at no cost. • Accounting becomes more complex and transparency more difficult. • Field staff and IG members need additional technical skills to identify and manage profitable business opportunities, and external support to SLAs is needed for a longer time. Under the current arrangement IGs receive 30 percent of interest revenue for their role in facilitating the bank linkage, which does not cover the time and expenses incurred by their members. As a result, many IG members are volunteering their time, which they are most likely not willing to continue in the long term. • Access to capital is currently limited to the CARE credit fund, which is in essence subsidized capital provided to the BPs in order to lend to SLAs below its regular interest rate of 14 percent (as 30 percent of interest revenues are paid for the IG intermediation). UBPR is not willing use the same terms in case of using its own capital for lending to SLAs. BPs claim that they cannot afford a 30 percent deduction on interest revenues to pay for IG services, even though these will most likely remain essential, especially in case of SLAs borrowing for the first time. Without sufficient income the sustainability of the IGs is in jeopardy. • The CLASSE-Intambwe approach tends to reach those around and slightly above the poverty line rather than the very poor without assets or existing income generating activities. The credit linkage in

	<p>the model is not to blame for this, but it needs to be kept in mind that the high demand for loans and high repayment rates might have been possible because the SLAs are less poor to begin with.</p> <ul style="list-style-type: none">• In addition to intermediating the credit linkage, IGs are expected to perform other services (enterprise development, access to new markets, training new associations in CLASSE-Intambwe), but they often lack the skills and means to perform these. Lack of staff and funding have prevented CARE Rwanda from further developing the capacity of IGs directly or investing in RESAFI to do the same.
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RECOMMENDATIONS

The following recommendations are for other economic security programs, within CARE or other development organizations, who wish to replicate this model.

- Bank or MFI partner needed with strong presence in rural areas. For most African countries population density will be much lower than in rural Rwanda, so cost-efficiency will be harder to achieve.
- Strategy to replace CARE's credit fund with bank's own funds should include an interest rate that is high enough and competitive in the market place from the beginning for the bank partner to continue lending after CARE withdraws its credit fund.
- The goal should not be to link every SLA to external credit, as many might not be interested in or capable of using bank loans productively. Similarly, there should be a mechanism in place that prevents a powerful minority within an SLA to monopolize the decision making as to whether to use the internal fund as deposit for a bank loan or as internal loan fund.
- Access to loans should not discourage SLA members from saving, and should not be introduced too soon (two years after start of SLA training is recommended). Especially for very poor, it is important to allow them to accumulate their own savings and a minimum level of productive assets.
- At least as important as the credit linkage are non-financial enterprise development services (access to new markets and value chains, skill training, technology).
- Sustainability strategy: to develop IGs into business service centers for SLAs, with capacity to provide fee-based services. The sustainability of this approach depends critically on the capacity of IGs to deliver quality services to SLAs at full cost recovery.
- Clients need education on credit and consumer protection. It will also be advisable to let the financial partner ratify the CARE code of conduct in microfinance (see Appendix 6).
- CARE to play more of a facilitation role and to be careful not to present the SLA members as its microfinance members but as potential good customers for the financial institutions
- It will be ideal to emphasize from the inception the leverage or risk sharing to allow the financial institution to also share part of the risk. In this case, the UBPR does not take any risk and resists lending its own fund to the SLAs, unless the 30 percent payment is waived. A clear cost-benefit analysis needed to take place at the beginning to ensure that the model is profitable for each party before it is launched.
- Last but not least, it will be advisable to create the relationship with the financial institution at the board level as well, not only at the management level. This will help to convince the board members about the potential of the new market segment and could put pressure on them to deliver on both their social and commercial missions.

APPENDICES

Appendix 1: CARE Rwanda Resources

Aeschliman, Chet, Fiacre Murekezi and Jean-Paul Ndosoboye. (2005). Extending the Outreach of Rwandan Peoples' Banks to the Rural Poor through Village Savings and Credit Associations.

Akue, Vincent. (2004) Strategic Review and Realignment of Economic Security Program in Rwanda.

Black, Lucas. (2005) Technical Assistance Report for CARE Rwanda's Economic Security Strategy.

CARE Rwanda. (2005) ECOCOMF mid-term evaluation report.

Hakizamungu, Ephron. (2005) Étude comparée de la Microfinance à base communautaire avec les Institutions de Microfinance dans la réduction de la pauvreté en milieu rural.

Niyibizi, Ange. (2006) Project CLASSE-B. Rapport d'Évaluation Final.

Vita, Massimo. (2005). Project CLASSE-B. Review and Monitoring. Evaluation for IFAD.

Appendix 2: Relevant Publications

Anyango Ezra, Ezekiel Esipisu, Lydia Opoku, Susan Johnson, Markku Malkamaki And Chris Musoke. (2007). Village Savings and Loan Associations – Experience From Zanzibar. Small Enterprise Development Vol.18 No.1

Allen, Hugh and Grant, William (2003) CARE's Mata Masu Dubara (Women on the Move) Program in Niger. Successful Financial Intermediation in the Rural Sahel. Journal of Microfinance. Journal of Microfinance, Vol 4 No 2.

Allen, Hugh. (2002). CARE International Village Savings and Loan Programs in Africa. Microfinance for the Rural Poor that Works.

Murray, Jessica and Rosenberg, Richard. (2006). CGAP Focus Note 36. Community-Managed Loan Funds: Which Ones Work?

Ritchie, Anne. (2007). Agriculture and Rural Development Discussion Paper 34. Community-based Financial Organizations: A Solution to Access in Remote Rural Areas?

Appendix 3: Summary of SEAD chat session on Linkage to External Credit

TOPIC: LINKAGE OF VS&L GROUPS TO FINANCIAL INSTITUTIONS (Especially for additional loan fund)

DATE: From May 13 to June 15, 2006

FACILITATED BY: Economic Development Unit team, CARE USA

PRO- LINKAGE	CONS- LINKAGE
<p>Main arguments:</p> <ul style="list-style-type: none"> - Maybe the best to do would be to appropriately select VS&L groups or the most successful group participants, who have demonstrated their ability to understand the risks linked to return on investments and accompany them to grow/diversify their business by accessing new external financial products. That would obviously require additional training and monitoring - There have been failures with linkage programs, but there have been successes as well. Rwanda has developed a linkage program where a local cooperative bank lends to the groups and the groups then intermediate the funds, often adding on extra percentages of interest. In this way, even group members who are not ready to grow and access external funding benefit from the growth of their group mates. The cooperative bank has experienced over 98 percent repayment from their groups; it's their most successful product line - Surely good financial service providers can design products and services that fit the needs of the poor better than the FINCA stepped loan model. 	<p>Main arguments:</p> <ul style="list-style-type: none"> - Linkages subordinate VS&L groups position to an external provider of funds - IGA run by members not usually growth oriented - Linkages are a suitable for strategy for people who are full-time entrepreneurs and whose need for capital cannot be met by a small local pool of capital. - MFI tend to lend more money to IGAs than they can handle. - Outside lending put the assets of the group at risk - MFIs universally charge a high interest rates- the effective annual rates often in three figures (Uganda specific) - Credit-led microfinance: MFIs and even the government talk about savings, but promote and facilitate borrowing. There is a large, state-supported wholesale lender that continues to pour loan funds into MFIs - this money has to go somewhere (Uganda specific) - Generally tenuous financial performance of MFIs, which means many of them are hungry, always worried about how to pay the staff at the end of the month (Uganda specific) - Many MFIs still take their clients up a ladder of increasing debt, so that each loan is larger. Hence, the biggest MFI loans are going for consumption, not investment. - MFIs' credit officers universally rely on past performance in assessing loans. The first couple of loans will, in some MFIs, get some attention, and the officer will help the client spend the money wisely. After the clients have succeeded on two loans, however, they have a reputation as "good clients", essentially pre-accepted for larger and larger amounts. Depending on how good the credit recovery procedures are at the MFI, this goes on until one of two things happens: either the client defaults, or the client repays, painfully, selling the TV or sewing machine to do so. - Linkage to VS&L groups is inherently dangerous and

<ul style="list-style-type: none"> - What if instead we made the effort to give the poor access to the full range of financial services that most of the people on this listserv have access to everyday: savings services, loans, life insurance, health insurance, crop insurance, derivatives, credit history as an asset, home mortgages, consumer credit, pensions and leasing services. I'm sure there are more I am missing. But my point is what if the poor had access to all of these services. Would they still be poor? - So I really think that it's time we stopped "protecting" the poor, stopped limited the services we provide them based on what we think is best for them, and start doing everything we can to give them the options they need to get themselves out of poverty 	<p>destabilizing for the following reasons:</p> <ul style="list-style-type: none"> • there are relatively few 'growth oriented entrepreneurs' in VS&L groups • there is a danger that the group as a whole will get dragged into a relationship that's only useful for a few • the risk of over-lending because it suits the MFI to program large amounts of money. Remember that FINCA in Malawi is known as the banks that takes away your furniture. • loss of autonomy. Instead of managing its money, the group gets turned into an unpaid debt collection agency and takes on liability • reduced incentive to save • increased complexity <ul style="list-style-type: none"> - Country specific; in Kenya, the government policy bars MFIs from taking deposits which was initially used by MFIs as security, and therefore linking GS &L groups to MFIs will automatically ruin our primary objective of savings mobilization and group members will not see the need for saving if they can easily access loans. - Linkage will erode group cohesiveness. MFIs rarely re-negotiate loan terms as their success is measured in terms of qualitative loan repayment rate, therefore arrearage and delinquency leads group harassments, loan stoppage for the whole group and this interferes with group cohesion - It is well known that most micro enterprises never live to see their 1st anniversary and most micro entrepreneurs initiate an IGA to meet an immediate objective after which they close their businesses, introducing such persons to MFIs will only escalate their problems. - The MFIs have their conditions like the minimum loan that can be taken, yet the GS&L clients may need as little as US\$3 as loans. Linkage to MFIs will therefore overburden them.
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In the Middle

Main arguments:

- Usually it will work if the external agency lends to the group (not the individuals within it) so that the group can manage the money and make a profit, instead of acting only as an agency of the lender. It will also work quite OK if the ratio of debt to equity is no greater Than 1:1 (preferably less)
- ONLY, lend to individuals of the group, using a separate assessment and guarantee mechanism

- While we shouldn't automatically push people in the direction of linking VSL to MFIs, all staff working on VSL programs should be able to clearly articulate the pros and cons, and help people decide for themselves what is best in their situations.
- People have life cycles, those who aren't ready to grow their business now may well be ready next year, or 10 years from now. Let us help people build the relationships, with group members or with institutions, that will let them grow when they need or want to
- in Niger, the home of MMD, groups themselves have pursued linkages with financial institutions with no support from CARE. So if it is something that is going to happen organically in some cases, should we support it, should we discourage it, or should we just get out of the way and let it happen? What if we focused on creating training modules to give people this skills and information to analyze their own situation?
- I am averse to the risks involved in offering products that have got a dodgy track record unless (and I stress this) they actually demand them.
- Linkage to MFIs and any other financial institution should be a stage by stage resolution focusing on client businesses
- No easy solutions to complex dilemmas
- CARE can link G/VS&L groups to commercial banking especially in urban set ups if the group is mature enough and have extra funds after disbursing loans and mainly for security purpose.
- V/GS&L group may be having a project (an economic activity) which after opportunity and feasibility study analysis is found to be economically viable, then the group can look for external loan. But this should be a very viable activity that can even create employment to the community. But CARE staff must do all the trainings and even link them to other partners involved in community based trainings.
- Successes have unique contexts: including high levels of population density, high levels of penetration for financial institutions and high levels of government support.
- VSL staff should be able to give advice to VSL members about financial services available elsewhere, in MFIs, Banks, Coop, etc. "If our staff themselves spend their professional lives working with people on how to use their money, but don't understand the issues of institutions as commonplace as MFIs well enough to talk intelligently about general pros and cons of MFIs at a basic level, I think we've got problems. "
- Of course VSL staff should not push the linkages as a standard objective for all – mindlessly arguing "savings are only an entry point to credit" clearly would be a real problem. At the same time, if we revert to a simplistic "never take credit" argument, then the VSL program managers and fundis are failing people who might actually benefit from credit. This isn't an either / or debate – there are choices involved. VSL staff should be professionally competent to discuss the options with people who don't spend all their time thinking about savings, loans, and credit, without pushing them in a pre-determined direction. If VSL staff aren't able to do this, then I'd say the program is missing out on addressing the very real concerns of many people who actually members of VSL groups.
- because the linkage is usually credit-based it brings with it special risks and needs to be approached very cautiously
- If MFIs, for example, refused to lend more than 50 percent of total VS&LA equity as measured by the total of cash and loans outstanding, it would be fine because that wouldn't put the VS&LA awash with liquidity it couldn't profitably invest - conservative debt/equity ratio
- Let the idea of linkage come from the community and, before a program commits itself to facilitating it, make sure that it's a fairly common to a lot of groups (because it's a lot of work and costs a lot of money), emerging after at least a year of independent VS&L operations.
- Linkage or no linkage, we shall be overtaken by events, the groups are thinking very fast.

- The reason that linkage works more or less OK in India is that there is political commitment to pressurizing the banks to work with SHGs and also in Rwanda.
- Savings-based groups. CMLFs (CARE's VS&LAs) are often successful when loans are financed by the members' own savings, and there is either no external funding, or such funding arrives in modest amounts after the group has a solid track record of lending and recovering its own savings.

Tentative conclusions:

- Can we conclude based on this empiric evidence that: the earlier / the more we inject foreign / cold capital into VSLAs the less chances we have that the groups would actually benefit / the more disturbance we are causing
- round to the view that injection of capital isn't a bad thing per se, but that it shouldn't happen quickly (perhaps after 2 successful cycles) and on the basis of a very conservative debt/equity ratio.
- Donor funding should never be injected into the groups, and commercial funding from banks, MFIs should only be injected after a long period of successful intermediation of internal savings.
- No external borrowing for at least 1 cycle – preferably two
- Not using member savings as loan collateral; lending only to the group and not to the individuals (so that the group manages the money and makes a profit); offering a long-term loan so that the VS&LA can program the money in time periods that allow for multiple rotations of the money in loans that are matched to members' needs etc.
- External loans are to the group for on-lending to its members as it sees fit: the external lender has no role in managing the loan approvals process; determining the length of the loan, the interest charged or chasing borrowers (except the group itself) for repayment.
- The amount of money borrowed from an external lender shouldn't be more than half of the group's net worth at the time of taking out the loan, for at least two cycles and should never exceed 1:1 (this reduces the risk of over-borrowing and ensures that a high percentage of the borrowed money will actually be used)
- We have to also disaggregate the VSLA groups into different types and identify criteria in order for us to decide which "graduation" path what type of group should take.
- We also have options to link individual members to financial service providers using the performance of the individual as a reference
- Based on experience, I can say that if we want to integrate financial services to VSLs, you have to have clear loans policies and guidelines making sure that it will add to the strengthening of the VSLs
- staffs should also be trained in microfinance and not just in VSL formation
-

New issues for discussions

- Next step: transformation of the village savings and loan into fully fledged financial institution???
- Can we think of group to group linkages? - central financial facility
- Let us think in terms of groups forming SAVINGS AND CREDIT UNIONS/ SOCIETIES, advocacy for policy changes for recognition of V/GS&L by the government and know exactly in which ministries do we fall in.
- I do support linkage at some levels of operation not only to MFIs, but also to other micro enterprise developers like BDS, Marketing experts, Insurance companies, etc.

Discussions participants:

1. Lauren Hendricks, CARE USA
2. Sybil Chidiac, CARE USA
3. Laté Lawson, CARE USA
4. Afurika Juvenal, CARE Ethiopia
5. Jean Michel Vigreux, CARE SWARMU
6. Dan Mullins, CARE SWARMU
7. Nelly Otieno, CARE Kenya
8. George Odo, CARE Canada – based in Kenya
9. Catherine Sobrevega, CARE Afghanistan
10. Uwe Korus, CARE Uganda
11. Andreas Peham, CARE Tanzania
12. George Mkoma, CARE Tanzania
13. Christian Portal, CARE Bangladesh
14. Phal Pisey, Cambodian Community Savings Federation
15. Hugh Allen, Consultant
16. Paul Rippey, FSDU/DFID-Uganda

Appendix 4: PPA Household Categories and Characteristics

Category of Household	Household Characteristics
<i>Umutindi nyakujya</i> (those in abject poverty)	Those who need to beg to survive. They have no land or livestock and lack shelter, adequate clothing and food. They fall sick often and have no access to medical care. Their children are malnourished and they cannot afford to send them to school.
<i>Umutindi</i> (the very poor)	The main difference between the <i>umutindi</i> and the <i>umutindi nyakujya</i> is that this group is physically capable of working on land owned by others, although they themselves have either no land or very small landholdings, and no livestock.
<i>Umutindi</i> (the poor)	These households have some land and housing. They live on their own labor and produce, and though they have no savings, they can eat, even if the food is not very nutritious. However they do not have a surplus to sell in the market, their children do not always go to school and they often have no access to health care.
<i>Umutindi wifashije</i> (the resourceful poor)	This group shares many of the characteristics of the <i>umutindi</i> but, in addition, they have small ruminants and their children go to primary school.
<i>Umutindi</i> (the food rich)	This group has larger landholdings with fertile soil and enough to eat. They have livestock, often have paid jobs, and can access health care.
<i>Umutindi</i> (the money rich)	This group has land and livestock, and often has salaried jobs. They have good housing, often own a vehicle, and have enough money to lend and to get credit from the bank. Many migrate to urban centres.

Appendix 5: Memorandum of Understanding between CARE and a Banque Populaire

MEMORANDUM OF UNDERSTANDING BETWEEN CARE INTERNATIONAL IN RWANDA AND THE UNION DES BANQUES POPULAIRES AU RWANDA

PREAMBLE

CARE International in Rwanda, hereinafter referred to as « CARE » in the framework of the implementation of its project ECOCOMF (Expanding Competitive Client Oriented Microfinance Service in Rural Rwanda) through the inter-groupings of RULINDO, HUMURE, KINIHIRA districts; and the Union des Banques Populaires du Rwanda hereinafter referred to as “UBPR” acting on behalf of six (6) Banques Populaires of Byumba and Kigali Ngali provinces, namely:

- The Banque Populaire of NGARAMA
- The Banque Populaire of MUHURA
- The Banque Populaire of BULIZA
- The Banque Populaire of RULINDO
- The Banque Populaire of KINIHIRA
- The Banque Populaire of BUYOGA

operating in the area of activities of ECOCOMF (Expanding Competitive Client-Oriented Microfinance Services in Rural Rwanda) project; have concluded an agreement aimed at establishing a mechanism allowing the Associations organized by ECOCOMF project to have an access to financial services in a sustainable way and to define joint management of the Credit Fund, referred to as “CARE Credit Fund” established by the project in the profit of the Associations operating in Byumba and Kigali Ngali provinces.

ART.1. ECOCOMF PROJECT SUMMARY

The project denomination is: ECOCOMF

The project zone: HUMURE, NGARAMA, KISARO, KINIHIRA, RULINDO, and BULIZA districts.

1.1 AIM OF THE PROJECT

At the completion of the project 50 percent households through 600 associations will have increased their income at 25 percent in those districts. With this regard, ECOCOMF project will support women dominated member associations in the common goal of enhancing their living standards.

1.2 THE PROJECT COMPONENTS

The Project components are:

- a) Stimulate and train Solidarity Groups about savings and loans
- b) HIV/AIDS Integration
- c) To increase Income Generating Activities (AGSs) for the associations through easy access to MFI loans

1.3.THE CONTEXT OF THE MEMORANDUM

Within the framework of ECOCOMF project supported by the USAID, CARE International organized and strengthened the capacities of about 600 Credit and Saving Associations grouped together in 3 inter-groupings in MUHURA, NGARAMA, KISARO, KINIHIRA, RULINDO and BULIZA districts. Those associations are structured and have been functioning according to CLASSE –Intambwe methodology for more than one year. The Annex N°1 of this memorandum provides a presentation of that methodology.

In its role as development facilitator, CARE International in Rwanda in collaboration with civil society actors and the private sector has established partnership relations aimed at creating better conditions for the practice of private initiatives of grassroots organizations. Thus through the ECOCOMF project, CARE International envisages to establish links between CLASSE-Intamwe Associations grouped together in 3 inter-groupings and Financial private institutions.

CARE's strategy consists in building the capacities of the member associations for the management of their own development and in enhancing the economic security of poor households through reinforced practice of income generating activities into micro project thanks to a sustainable access to a relevant financial system.

Art.2. OBJECTIFS OF THE PRESENT MEMORANDUM

The present memorandum aims at defining the framework of the partnership between CLASSE-Intambwe associations, inter-groupings, the Banques Populaires of Rwanda, and the CARE International in Rwanda in order to help CLASSE-Intambwe associations get an easier access to the financial services provided by the Banques Populaires in a sustainable way and in response to each association's needs. More specifically this memorandum aims at:

- Setting up the methods of managing the Credit Fund established by CARE International and the requirements of CLASSE-Intambwe Associations from MUHURA, NGARAMA, KISARO, KINIHIRA, RULINDO, and BULIZA districts to obtain a bank credit,
- Defining respective obligations of each participant

Art.3 THE CREDIT FUND

Aware that the concept of granting credits to associations has not yet been practiced by the Banques populaires, and in order to facilitate the relationship CARE International in Rwanda has established a Credit Fund intended to finance initial operations of granting loans to CLASSE-Intambwe associations. It must be understood that that fund will progressively be replaced by the own resources of the Banques Populaires up to 50 percent at the close of the first year, to 100 percent beyond the second year, in case the Banques Populaires, CARE International in Rwanda and its partners have deemed the collaboration satisfactory. If need be, that fund will be transferred into other districts in order to reproduce the same effects.

Art.4 PARTENERS' DUTIES

4.1. Duties of CARE INTERNATIONAL in RWANDA through ECOCOMF

Through the ECOCOMF project, CARE International in RWANDA has the following duties:

- ⇒ To put a Credit Fund of Forty Eight Million Rwandan Francs (RWF 48,000,000) at the disposal of the Banque Populaire for the profit of the associations grouped together in inter-groupings. That fund will be shared between six (6) Banques Populaires concerned by this project as follows:

- Nine Million Rwandan francs (RWF 9,000,000) for the Banque Populaire of Rulindo, for the profit of GOBOKABAVANDIMWE Inter-grouping operating in the Rulindo and the Buliza districts
- Six million Rwandan francs (RWF 6,000,000) for the Banque Populaire of Buliza, for the profit of GOBOKABAVANDIMWE Inter-grouping operating in the Rulindo and Buliza districts
- Eight million, Five hundred thousand Rwandan francs (RWF 8,500,000) for the Banque Populaire of Kinihira, for the profit of IMAKIKI Inter-grouping operating in the Kinihira and the Kisaro districts
- Eight million, Five hundred thousand Rwandan francs (RWF 8,500,000) for the Banque Populaire of Buyoga, for the profit of IMAKIKI Inter-grouping operating in the Kinihira and the Kisaro districts
- Eight million, Rwandan francs (RWF 8,000,000) for the Banque Populaire of Muhura, for the profit of CECANGAHU Inter-grouping operating in the Humure and the Ngarama districts
- Eight million, Rwandan francs (RWF 8,000,000) for the Banque Populaire of Ngarama, for the profit of CECANGAHU Inter-grouping operating in the Ngarama district.

The share that comes to each BANQUE POPULAIRE will be deposited in an account bearing the title of “CARE Credit Fund” opened at each Banque Populaire.

- To provide technical training, in response to the training wishes and needs of the associations and inter-groupings concerned with this memorandum. To train the technical staff, of the UBPR and the Banques Populaires involved in this memorandum with regards to CLASSE- Intambwe methodology.
- To closely cooperate with inter-groupings to make sure that they abide by their terms and conditions, more particularly, the following up and collection of loans granted to the member associations’
- To have this memorandum signed by the inter-groupings whose duties are defined hereinafter.

4.2 INTER-GROUPINGS DUTIES

- Analyse, sign and forward the project prepared by the associations to the Banques Populaires for funding request;
- Make the follow-up of the management of the loan granted by the Banque Populaire and make sure that the money is allotted to predefined purposes and that all the redemption dates are respected;
- Ensure the collection of the loans granted to the member Associations in the framework of this project for the profit of the Banque Populaire;
- Submit to CARE in due time the monthly reports accounting for all the activities of micro projects;
- Assess and examine the achievements of the associations, develop mechanisms and activities to backup the capacity building of the Associations;
- Submit to Women Councils and to district authorities (CDC and Social Affairs) the monthly progress reports (for information)

4.3 Duties of UBPR

- To ensure the follow-up of CARE Credit Fund management by the Banque Populaire;
- Sending to CARE the synthesis of quarterly report on loans that the Banque Populaire has granted to the Associations in the framework of this project and according to the model provided in Annex 2 of the present memorandum;
- To have the present memorandum ratified by each member Banque Populaire

4.4.DUTIES FOR EVERY PARTNER BANQUE POPULAIRE

- ⇒ Analyzing credit requests submitted by associations within the framework of this agreement and making decision related to them within 15 days;
- ⇒ Drawing up and signing credit contracts with the associations
- ⇒ Carrying out the releasing of credits for signed contracts
- ⇒ Following up debtors and informing usually inter-groupings of short maturity (at least one week in advance) and of out standing payments. To this end the bank shall draw up a report to be monthly submitted to inter-groupings; UBPR and CARE project. The report format shall be jointly determined by inter groupings and CARE International;
- ⇒ Introducing inter-groupings to credit follow-up and collection with a view of enhancing its intervention to the Banque Populaire partner associations;
- ⇒ Paying to inter grouping remuneration provided for by article 10 of this agreement.

ARTICLE 4.5 UTILISATION OF LOANS GRANTED TO ASSOCIATIONS

Borrowed amounts shall help of strengthen and or develop economic activities of the associations. These activities shall be cost-effective, have outlays for distribution and sale and they shall generate enough income to repay the capital and interests.

ARTICLE 5 GENERAL CONDITIONS OF ELIGIBILITY TO CREDIT

On the whole, requirements for eligibility to credit are the same as those applied in Banques Populaires. Therefore, associations targeted by ECOCOMF shall fulfil the following requirements:

- ⇒ Being member of an operational inter-grouping but also partner of CARE, thereby adopting the system of tontines organized according to the model of CLASSE-intambwe and having no outstanding subscriptions.
- ⇒ Being a usually active shareholder of Banque Populaire;
- ⇒ Being morally irreproachable, especially in terms of abiding by previous commitments and having no past record of unpaid credits;
- ⇒ Being at least made up of seven members with 18 years of age at least;
- ⇒ Being an associations ruled by the law governing the country, acknowledged by competent institutions and abiding by their rules and regulations;
- ⇒ Submitting an economically sustainable project;
- ⇒ Signing a joint and several guarantee/ "*caution solidaire*" established by the Banque Populaire and provided for by article 7 below.

ARTICLE 6 CREDIT AMOUNT

The credit amount limit is fixed in accordance with the requirements of Banques Populaires. However, for partner associations of the project, the amount limit is fixed to 500,000 RFW for the initial credit.

ARTICLE 7 REQUIRED GUARANTEE AND RESERVES

Each associations is bound to build up a required guarantee in a form of term deposit with the same term as the credit granted by Banque Populaire. Interests generated by this term deposit shall be paid when due and they can be converted into capital.

The guarantee can be fully or partially used to cover out-standing payments if need be after applying usual assessment process. It is allocated to payment after a 15-day unsuccessful formal notice. When the credit has been paid, the savings with generated interests shall be refunded to the association, which shall determine its allocation.

ARTICLE 8 TERMS OF CREDIT

Terms of credit, which shall be applied, are the ones applied by Banques Populaires.

- ⇒ The deadline for payment is 12 months with a period of grace according to the nature of the project to be financed;
- ⇒ Accrued interests shall be paid when each repayment is due;
- ⇒ The rate of debit interest shall be the current rate of Banques Populaires.

ARTICLE 9 MECHANISMS FOR CREDIT RELEASING, FOLLOW-UP AND COLLECTION

Associations with inter-grouping technical assistance shall carry out identifying and technically making applications for loans. The final analysing of the applications shall be upon the Banque Populaire with full sovereignty for decision- making. The diagram mapping out the process for the application and decision-making is on appendix 3 of this agreement.

9.1.CREDIT RELEASING

Each association shall open a sight deposit account or current account. the credit releasing shall be carried out at the Banque Populaire through a credit from a deposit account of beneficiary association.

9.2 CREDIT FOLLOW-UP

- ⇒ The administrative management of application for credits shall be upon the Banque Populaire, but the credit follow-up shall jointly carried out by the Banque Populaire and inter-grouping.
- ⇒ The inter-grouping shall have the right to use the documents of Banque Populaire related to associations credits in order to be able to carry out a usual follow-up of credits granted within the framework of this agreement.

9.3.COLLECTION OF CREDITS AND INTER-GROUPING TECHNICAL ASSISTANCE

- ⇒ Collection of credits procedures for credits shall be those usually used by banques populaires;

- ⇒ Collection shall be upon the Banque Populaire. However, inter-grouping shall provide its technical assistance for this collection. Therefore, it shall be especially visiting debtors, summoning them and denouncing them in meetings in order to bring them to repay;
- ⇒ During the whole process collection, the inter-grouping members shall not be allowed to receive funds. Repayment shall only be done at the Banque Populaire.

ARTICLE 10: REMUNERATION FOR THE SERVICES OF INTER-GROUPING

Each inter-grouping shall open a deposit account in a partner bank. For provided technical assistance services (prior analysis of applications for loans, follow-up of associations, collection), inter-groupings shall be paid to the amount of 30 percent of interests generated by credits granted to member associations, irrespective of the nature of resources for the loan financing. The report on the remuneration shall be made monthly and transmitted to inter-grouping CARE and UBPR concurrently with other reports. Remuneration shall be paid at every credit repayment

ARTICLE 11: SETTLEMENT OF DISPUTES

All disputes associated with this memorandum shall be amicably settled, or otherwise, other competent legal institutions shall be referred to

ARTICLE 12: TERMINATION OF THE MEMORANDUM

The right to terminate this memorandum is reserved to both parties at its terms or at any time of one of the parties fails to honor its commitments as spelled out in this memorandum. The application for termination shall be made in writing with 3-month notice.

Under these circumstances, UBPR shall repay to CARE the part of credit fund not yet released , but operations under way prior to the termination shall be duly brought to an end. However, the duty to follow up the collection shall outlive the termination of this memorandum until the credits are fully repaid. Funds collected after this memorandum termination shall be repaid to CARE.

ARTICLE 13: FINAL PROVISIONS

This memorandum comes into force on the day of its signature it shall be amended, completed or stopping of project activities, the credit fund shall be returned to CARE.

- ⇒ This memorandum is valid for a two year renewable period two months prior the end of this period, a joint participatory evaluation shall be carried out by all parties concerned by this memorandum in order to:

- a) Analyse how this memorandum has been implemented; its strengths, its weaknesses and to look ways and means to safeguard the strengths and overcome the weaknesses.

 - b) Assess the capacity of inter-groupings to fully play their roles in favour of partner Banques Populaires and associations represented by those inter-groupings.

 - c) The level of appreciation of the cost-effectiveness of the implementation of this memorandum by partner associations.
- ⇒ The renewal of this memorandum shall take into account agreed-upon results of that assessment.

Done in KIGALI, on the 6th /08/2004

On behalf of UBPR

On behalf of CARE International

Rwanda

Director general

Representative of CARE

International in Rwanda

Appendix 6: CARE'S CONSUMER PROTECTION CODE OF CONDUCT IN MICROFINANCE

CARE's consumer protection code of conduct - short version

In the following table, CARE principles are presented in the left column and practices to enact them are in the right.

Our principles	Principles in practice
<p><u>Promote empowerment</u></p> <p><i>We stand in solidarity with poor and marginalized people, and support their effort to take control of their own lives and fulfill their rights, responsibilities and aspirations. We ensure that key participants and organizations representing affected people are partners in the design, implementation, monitoring and evaluation of our programs.</i></p>	<ol style="list-style-type: none"> 1- CARE staff and partners²³ pledge to treat their clients with dignity and respect. 2- CARE staff and partners will seek to not disclose any sensitive information regarding their clients to a third party without a prior written agreement from the client. 3- CARE staff and partners will always safeguard the interest of the clients and in no case encourage any business deal that undermines the client's control over the business transactions.
<p><u>Work with partners</u></p> <p><i>We work with others to maximize the impact of our programs, building alliances and partnerships with those who offer complementary approaches, are able to adopt effective programming approaches on a larger scale, and/or who have responsibility to fulfill rights and reduce poverty policy change and enforcement.</i></p>	<ol style="list-style-type: none"> 4- CARE will always seek a strategic partnership for the implementation of our microfinance activities, especially with local specialized and authorized organizations to ensure sustainable access to and control over financial services by poor and marginalized communities and compliance with local legislation. 5- When working with partners, CARE will ensure that partners have consumer protection codes that are not in conflict with CARE's mission, vision, principles and core values and this Code of Conduct. 6- CARE will play a proactive role in any advocacy work in partnership with others to promote a more conducive environment for the benefits of our communities and partners.

<p><u>Ensure accountability and promote responsibility</u></p> <p><i>We seek ways to be held accountable to poor and marginalized people whose rights are denied. We identify individuals and institutions with an obligation toward poor and marginalized people, and support and encourage their efforts to fulfill their responsibilities.</i></p>	<p>7- CARE and our partners will seek to ensure that clients have a complete understanding about the true costs they are paying on loans and other financial services and the interest rate they are receiving on their savings.</p> <p>8- CARE and our partners will seek to ensure that if a loan application is denied to a client, the reason is clearly explained to him or her.</p> <p>9- CARE and our partners will ensure that clients are aware of their rights and a formal and transparent mechanism is in place to handle client complaints and disputes.</p>
<p><u>Address discrimination</u></p> <p><i>In our programs and offices we address discrimination and the denial of rights based on sex, race, nationality, ethnicity, class, religion, age, physical ability, caste, opinion or sexual orientation.</i></p>	<p>10- CARE and our partners will seek to ensure that no person is denied access to financial services based on sex, race, nationality, ethnicity, class, religion, age, physical ability, caste or beliefs as long as it is not in conflict with national procedures and regulations.</p> <p>11- CARE and our partners will make ourselves aware of different power dynamics in the community context and will respond in line with our principles.</p>
<p><u>Promote the nonviolent resolution of conflicts</u></p> <p><i>We promote just and nonviolent means for preventing and resolving conflicts at all levels, noting that such conflicts contribute to poverty and the denial of rights.</i></p>	<p>12- CARE and our partners will seek to ensure that staffs are respectful to clients, do not sexually exploit them and do not use violent or harmful practices in loan collection, even if the clients are in default.</p> <p>13- CARE and our partners will seek to ensure that clients avoid investing their loan in business ventures with no prospect for profit to ensure that clients are not deprived of their basic survival capacity as a result of paying back the loan.</p>
<p><u>Seek sustainable results</u></p> <p><i>As we address underlying causes of poverty and rights denial, we develop and use approaches that ensure our programs result in lasting and fundamental improvements in the lives of the poor and marginalized with whom we work</i></p>	<p>14- CARE and our partners will seek sustainable access to financial services for clients by fairly pricing services, and will make sure that prices are not abusive and comply with local legislation and local industry standard or practices.</p> <p>15- CARE and our partners will take necessary actions to educate clients on financial management and seek to ensure that clients and their families benefit from the services they receive and do not become over-indebted.</p>