

**Extending the outreach of Rwandan Peoples' Banks  
to the rural poor through village savings and credit associations\***

By:

Chet Aeschliman, Fiacre Murekezi and Jean-Paul Ndoshoboye

**AFRICA**

**RWANDA**

**RWANDAN PEOPLES' BANK**

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## Acronyms

BNR	Banque Nationale du Rwanda
BP	Banque Populaire/People's Bank
CARE	Christian Action Research and Education
CDC	Comité de Développement Communautaire
ECOCOMF	Expanding Competitive Client-Oriented Microfinance
FDC	Fonds de Développement Communautaire
IGA	Income Generating Activities
MoU	Memorandum of Understanding
MFI	Microfinance Institution
RESAFI	Réseau d'Epargne Sans Frontière
SCA	Savings and Credit Associations
COOPEC	Savings and Credit Cooperatives
UBPR	Union of Peoples' Banks in Rwanda

## **Extending the outreach of Rwandan Peoples' Banks to the rural poor through village savings and credit associations**

***Abstract:** Over 65 percent of Rwanda's rural population are poor and their principal activity is farming. Despite having the physical capacity and even the professional skills needed to undertake successful economic activities, this population completely lacks investment capital. CARE International based in Rwanda is improving this situation through its CLASSE-Intambwe methodology, which involves mobilizing rural poor into savings and credit associations and linking them to the vast network of peoples' banks that exist in the country. Although the 'linking' aspect is rather young beginning only in late 2003, initial results are encouraging. Today, all 1000 CARE supported savings and credit have savings accounts in their respective peoples' bank, and many group members have opened personal, individual accounts, thus bringing many into the financial mainstream. This article explains the origins, mechanics and outcomes of this unique relationship.*

### **Introduction**

Over 65 per cent of Rwanda's rural population are poor and their principal activity is farming. Despite having the physical capacity and even the professional skills needed to undertake successful economic activities, this population completely lacks investment capital. CARE International based in Rwanda is improving this situation through its CLASSE-Intambwe methodology, which involves mobilizing rural poor into savings and credit associations and linking them to the vast network of peoples' banks that exist in the country. Although the 'linking' aspect is rather young beginning only in late 2003, initial results are encouraging. Today, all 1,000 CARE supported savings and credit associations have savings accounts in their respective peoples' bank, and many group members have opened personal individual accounts, thus bringing many into the financial mainstream. This article explains the origins, mechanics and outcomes of this unique relationship.

### **The setting**

The Republic of Rwanda is a small, impoverished and land-locked highland country in Central Africa. It is surrounded by the Democratic Republic of Congo, Burundi, Tanzania and Uganda. Its total area is 26,338 km<sup>2</sup>, of which 1,390 km<sup>2</sup> is composed of water bodies. The country has an average altitude of about 2,750 M. Its main crops include beans, bananas and tea. Its population in 2003 was estimated to be 8,128,553, with a population density of 321 inhabitants/km<sup>2</sup>, one of Africa's highest. The prevalence of HIV/AIDS increased substantially during the 1990s – partly because of war and genocide, the most profound national event in the past decade, from 1.3 per cent in rural areas in 1986 to 10.8 per cent at present.

Rwanda is now a trilingual country, where Kinyarwanda is spoken by nearly everyone, with French being spoken mainly by the older generation, who were educated in pre-genocide Rwanda by its Belgian colonial masters and the national French-speaking school system following independence in 1962. English is spoken by those many Rwandans who grew up in exile in Uganda and returned after the genocide, thus explaining the mixture of French and English in this article.

## **Key players in Rwanda's financial sector**

Rwanda's financial system is composed of the central bank *Banque Nationale du Rwanda* (BNR), plus 6 commercial banks, a network of 149 peoples' banks (*banques populaires*, essentially credit unions), a few (the exact number is unknown) rival networks of savings and credit cooperatives ("COOPECs") and other multilateral financial institutions (MFIs), and a large number (perhaps thousands) of small 'savings and credit associations' (SCAs), essentially village banks, with linkages to the peoples' banks, the COOPECs, and sponsoring NGOs like CARE. The SCAs' linkage with the peoples' banks is, in fact, the subject of this article.

## **National microfinance policies and strategies**

Since 1995, the period when banking activities resumed after the genocide, has been marked by reorganization of existing institutions that were decapitalized during the war. Because Rwanda's policy makers agreed that microfinance constitutes an important part of the country's poverty reduction and economic development strategies, several MFIs were set up. Their creation, which was a good idea, derives from the fact that Rwanda is in general a very poor country, especially in rural areas, and that the majority of Rwandans have low incomes and do not have access to the classic financial system. However, a problem of lack of professionalism in existing financial and microfinance institutions and inadequate supervision increases their risk of failure and loss of customers' deposits.

As of 2002, as previously indicated, in an attempt to improve MFIs' operations, the BNR issued directives regarding the microfinance sector. The new regulations were welcomed by all actors and stakeholders. However, the new regulations – perhaps too hastily prepared – create some major difficulties for small MFIs, such as: a requirement to pay US\$9,300 into a frozen account when applying for registration; the difficult (for barely literate people) format and time frame required for submitting reports; and prudential ratios that are difficult to achieve (for example, the so-called 'creditworthiness' ratio: all MFIs must have equity capital equivalent to a minimum of 10 per cent of their assets).

As of 20 May 2005, a total of 206 MFIs had submitted applications to BNR to obtain registration (BNR, Banking Supervision Department). These included 148 peoples' banks and 58 other MFIs, of which around 40 are part of the Rwanda Microfinance Forum (RMF), whose principal mission is to lobby for, and build the capacity of, its member institutions. Of the total 206 institutions, 112 peoples' banks and 9 other institutions have been approved. There are other institutions that have yet to request approval from the BNR. These are often hard to detect, often setting themselves up spontaneously without feasibility studies or market surveys, lacking effective management and control tools, lacking supervisory and technical support systems, and hence have a high risk of failure and, in fact, often disappear just as suddenly as they appeared.

## **Motivation for creating linkages**

Over 65 per cent of Rwanda's rural population are poor and their principal activity is farming. However, their farms do not produce even sufficient food for family needs. The main reasons for such insufficiency are the vagaries of the weather, the ongoing subdivision of land into smaller and smaller units because of population pressure, soil degradation, non-use of agricultural inputs, and ineffective supervisory and advisory structures for rural producers and rural institutions. Despite having the physical capacity and even the professional skills needed to undertake successful economic activities, this population completely lacks investment capital.

Until recently, no financial or MFIs reached the poor for several reasons. Such people cannot provide material and financial guarantees, and in some cases are illiterate and therefore unable to write up their projects and plans, or even fill in loan application forms. The MFIs that finance this sector of the population are mainly the ones with a social vision that devote a great deal of time to mobilizing, training and educating their customers, such as CARE/Rwanda in the provinces of Umutara, Byumba and Kigali-Ngali.

The financial link, which aims to allow the rural population to have access to financial services, launches a dynamic development process in rural areas by **enabling revitalisation of the farming sector, and the freeing up and monetization of rural areas in general**. Consequently, it opens up various economic opportunities within and beyond the farming sector that people may take advantage of. In this context, CARE/Rwanda, in its economic security programme, tries to help households, whose members belong to associations that are excluded from the classic financial system, to have easy and lasting access to rural financial services.

### **Peoples' banks and savings and credit linkages**

CARE/Rwanda has for several years been developing its CLASSE-Intambwe savings and loan methodology as part of its poverty reduction efforts among households in rural areas of Rwanda. CLASSE-Intambwe seems to be an appropriate response for mobilizing and structuring grassroots communities in order to unite efforts to fight poverty.

This approach focuses on:

- the economic security of the most marginalised households;
- HIV/AIDS and its consequences;
- access to basic education for the most marginalised sectors.

CARE/Rwanda has organized target households into self-help groups called 'savings and credit associations' (SCAs) or simply '*kitties*', and helps them to start depositing weekly savings into an internal loan fund. CLASSE-Intambwe enables kitty members affiliated to it to accumulate savings and have regular access to funding from their 'kitties' and develop income generating activities (IGAs).

It turned out that the majority of the members of CLASSE-Intambwe associations wanted larger loans than their internal sources could provide. To resolve this problem, CARE/Rwanda made supplementary credit funds available to support these small entrepreneurs. These funds were entrusted to the various districts in the CLASSE project area, in compliance with national regulations in force at the time which stipulated that any intervention in a rural area had to be channelled through community development funds (FDC) managed by the districts.

The evaluation carried out at the end of the pilot phase of the CLASSE-Intambwe project concluded that the funds had not been well managed by the FDCs and that the target had not been achieved, despite the partnership that was set up for this purpose with the *Épargne sans Frontières* (Savings without Borders) Network (RESAFI), which provided external lending services. The balance remaining at the end of the project was used to strengthen the so-called 'inter-groupings', – i.e. regional, federative inter-group coordinating bodies – formed by a number of CLASSE-Intambwe member associations in a certain geographic locality.

Despite its limitations, and the errors noted during implementation of the pilot phase, the revised CLASSE-Intambwe methodology proved to be a distinct advantage for Rwanda with regard to mobilization of local savings and structuring of grassroots communities. This advantage warranted its being chosen as the preferred financial linkage between the peoples' banks (BPs), represented by the Union of peoples' banks in Rwanda (UBPR) and the SCAs, and facilitated by CARE/Rwanda within the framework of the Expanding Competitive Client-Oriented Microfinance (ECOCOMF (Expanding Competitive Client-Oriented Microfinance) project and CLASSE-Intambwe.

The choice of the financial linkage between the peoples' banks and the SCAs was thus motivated by several considerations, including:

- The CLASSE-Intambwe methodology turned out to be a suitable, effective and efficient tool in the context of rural areas in Rwanda with regard to mobilization of local savings and social cohesion, which are two pivotal factors on which the link is built.
- The NBR's Regulation 06/2002 forbids any natural person who is not approved by the NBR from carrying out savings and credit activities. This regulation has enabled the bypassing of district authorities that initially proved incompetent to deal with financial management, and permitted the population to turn to peoples' banks, which are much more professionally managed. Because CARE has considerable experience worldwide in rural finance, its tendency and preference was to create its own MFI network to provide the financial services. However, Regulation 06/2002, lack of project funding and practical considerations of long-term sustainability made it reconsider the alternative of partnership with existing financial institutions, i.e. the peoples' banks.
- The people's bank network broadly covers the entire country and has viable infrastructure even in rural areas. It is able to inspire confidence regarding the risk of theft, and above all the professional financial control exercised by the UBPR constitutes an additional guarantee in the public eye.

## **Individual peoples' banks and financial links with SCAs**

Eleven people's banks, including six in the provinces of Byumba and Kigali-Ngali (Buliza, Buyoga, Kinyihira, Muhura and Ngarama), operating in the area of the ECOCOMF project, and five people's banks in the province of Umutara (Kabarore, Matimba and Nyagatare) in the area of the CLASSE- Intambwe project, have financial linkages with SCAs via intergroupings. The 11 banks, their location and a summary of SCA and IG linkages, are shown in the Table 12.1 below and in the map above.

**Table 1 Saving and credit association (SCAs) in the linkage with BPs through Inter-Group Coordinating Bodies (IG)**

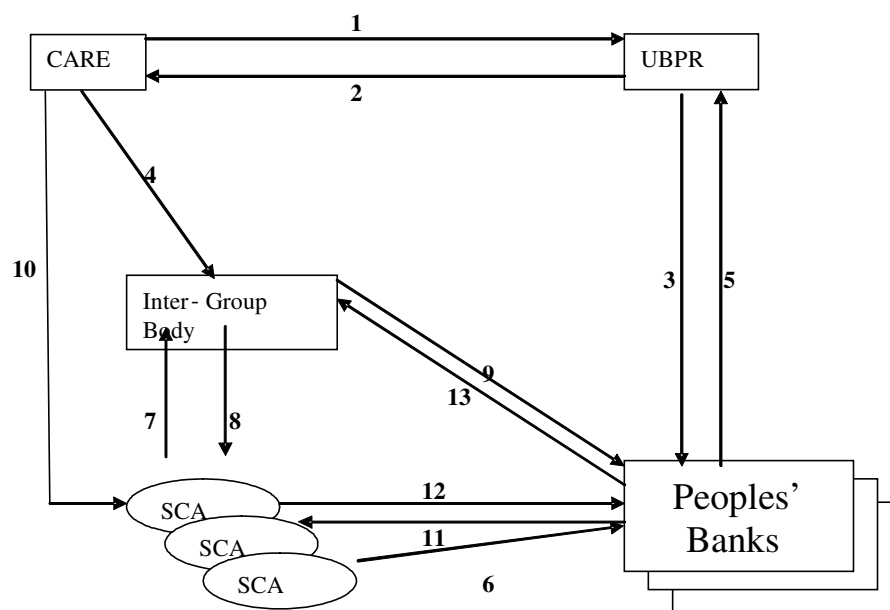
<b>Saving and Credit Associations (SCAs) in the Linkage with BPs through Inter-Group Coordinating Bodies (IG)</b>							
Province	District	Banque Populaire	Period with CARE (Months)	Project	Inter-Groupements	No. SCAs	No. SCAs Receiving Loans
Byumba	Kinhira	Kinhira	5	Expanding Competitive Client-Oriented	IMAKIKI	152	28
	Kisaro	Buyoga	5		IMAKIKI	156	39
	Ngarama	Ngarama	5	Microfinance Services in Rural Rwanda (	CECANGAHU	126	16
	Humure	Muhura	5		CACANGAHU	102	35
Kigali-Ngali	Rulindo	Rulindo	5	ECOCOMF: 15 June 2003-15 June 2005)	GOBOKABAVANDIMWE	130	24
	Buliza	Buliza	5		GOBOKABAVANDIMWE	49	15
Umutara	Kahi	Kabarore	17	Strengthening New Community	I A B I K	12	12
	Gabiro	Karangazi	17		IMPUDUGA	12	6
	Muvumba	Rukomo	17		ISANGANO	9	8
	Muvumba				DUKATAZE	8	8
	Kabare	Nyagatare	Matimba	3	URUKUNDO	28	2
					URUMULI	42	3
	Kahi	Kabarore	3	Community Learning and Action for Saving Stimulation and Enhancement ( CLASSE INTAMBWE methodology)	TWISUNGANE	17	8
					UMUNYINYA	26	2
					TWIZIGAME	27	1
	Bugaragara	Matimba	3	3	UMUHUZA	20	6
					URUGERO	23	3
	Umugi w' Umutara	Nyagatare	3	3	TUBEHAMWE	32	2
					ISANGANO RY'UMUGI W'UMUTARA	35	8
<b>TOTALS</b>		<b>11 BPs</b>			<b>19 Inter-Group Bodies</b>	<b>1,006</b>	<b>226</b>

Source: CARE/Rwanda

### Linkage structure, management and operations

Management of the financial linkage is governed by a memorandum of understanding (MoU) between CARE International in Rwanda and the UBPR .This memorandum of understanding defines the responsibilities of each party involved. The operation of the financial linkage can be easily understood by examining the diagram on the following page (Figure 1).

**Figure 1** Linkage between savings and credit associations, Inter-Group Bodies, Individual Peoples' Banks and the Union of Peoples' Banks in Rwanda



**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 bodies through training
5. The BPs provide financial reports on the credit fund to UBPR
6. The SCA opens a term deposit account in its peoples’ bank
7. The SCA submits a loan application dossier to its Inter-Group body
8. The Inter-group body analyses the SCA loan application
9. The Inter-Group body submits approved loan dossiers to the peoples’ Bank
10. CARE organizes, structures and trains the SCAs
11. The BPs grant the loan from the Credit Fund to the SCAs
12. The SCAs repay their loans to the BPs
13. The BPs grant 30% of interest received on the Credit Fund to the Inter-Group Body



The actors and their responsibilities in the linkage partnership are summarized as follows:

**CARE/Rwanda:**

- Make available credit funds amounting to **approximately US\$90,000** to participating peoples' banks on behalf of associations brought together in their respective Inter-Group Bodies. Such funds are divided between six project partner peoples' banks. The portion allocated to each bank is paid into an account entitled "**CARE Credit Fund**", which will be opened in each peoples' bank.
- Provide technical training in accordance with the requests and training needs of SCAs and Inter-Group partners.
- Train UBPR technicians and partner people's banks in CLASSE-Intambwe methodology.
- Work in close collaboration with Inter-Group bodies to ensure that they comply with their contractual obligations, especially regarding the monitoring and recovery of loans granted to member associations.
- Assure that this agreement is ratified by participating Inter-Group Bodies.

**Inter-Group Bodies:**

- Analyse, sign and forward the projects and loan applications drawn up by SCAs to peoples' banks for their consideration.
- Monitor use of loans granted by peoples' banks to SCAs, ensuring that the proceeds are used for their declared purposes and that repayment schedules are respected.
- On behalf of the peoples' banks, ensure recovery of loans granted to member SCAs within the scope of the project.
- Promptly submit regular monthly reports to CARE regarding all microproject activities.
- Evaluate and examine the progress made by SCAs, and develop mechanisms and activities to support their strengthening.
- Submit monthly reports to women's councils and district authorities (CDCs and social affairs departments) on the state of progress of activities (for information purposes).

**Union of Peoples' Banks in Rwanda (UBPR):**

- Monitor the management of CARE credit funds by people's banks.
- Supply CARE with a summary of the quarterly reports on loans granted and loan repayment status to associations by peoples' banks within the framework of the project.
- Assure that this agreement is ratified by each peoples' bank.

**Partner Peoples' Banks:**

- Open term deposit accounts in the name of each prospective borrower SCA.
- Analyse and decide on SCAs' loan applications within the scope of this agreement within 15 days of receiving them from the Inter-Group Bodies.
- Prepare and sign loan contracts with SCAs.
- Release loans for the contracts signed.
- Monitor debtors and regularly inform Inter-Group Bodies about upcoming due dates (at least one week in advance) and overdue accounts. To this effect, the bank will prepare a report to be sent monthly to Inter-Group Bodies, the UBPR and to CARE/Rwanda.
- Introduce effective loan monitoring and recovery methods to the Inter-Group Bodies in order to improve their dealings with partner SCAs.

- Pay commissions to the Inter-Group Bodies in accordance with the terms laid down in the agreement.

## **CARE – UBPR loan policy**

The intention is that the “CARE credit fund” made available to the peoples’ banks will be gradually replaced by the people’s banks own funds at a level of 50 per cent at the end of the first year and 100 per cent after the second year, but only if an evaluation so recommends and all parties concerned agree. If need be, the funds may be transferred to other districts to re-create the same arrangements. Members of SCAs may also become members of a partner peoples’ bank, on an associative or individual basis, if they so wish.

The sums borrowed must serve to strengthen and/or develop the SCA’s economic activities. The activity should be profitable, have a distribution and sales market and generate sufficient revenues to pay back the principal and interest. Generally speaking, loan eligibility conditions are those applied by peoples' banks. This means that SCAs targeted by the ECOCOMF project should:

- be members of an operational Inter-Group Body and a CARE partner. This entails adopting the ROSCA system in accordance with the CLASSE–Intambwe model and being up to date with subscriptions;
- be an ordinary and active corporate member of the peoples’ bank;
- give proof of irreproachable moral standards, notably regarding respect of previous commitments and have no prior history of unpaid loans;
- be made up of at least seven persons aged 18 years or more;
- be an SCA governed by current Rwandan legislation, recognized by the competent authorities and in compliance with their bylaws and internal regulations;
- present an economically viable project;
- provide a jointly and severally binding guarantee signed by all members, without exception, of the SCA requesting a loan.

The maximum amount of a loan is determined in accordance with the peoples' banks policies. For project partner SCAs, the maximum amount is set at US\$930 for the first loan.

- Each SCA must constitute a mandatory term deposit that matures on the same date as the loan obtained from the peoples’ bank. The interest accrued on the term deposit is paid on maturity and may be capitalized.
- All or part of the deposit may, if necessary, be used to cover unpaid loans after implementation of due diligence. Such deposit is seized 15 days after formal notice if no satisfactory response is forthcoming.
- When the loan is completely repaid, the savings plus accrued interest is returned to the SCA, which decides how it will be used.

Loan conditions are the same as those applied by the peoples’ banks:

- The maximum repayment period is 12 months, with the possibility of a grace period, depending on the nature of the project to be financed.
- Accrued interest is paid with each loan instalment.
- The interest rate on loans corresponds to the current peoples' bank rate.

# Remuneration of Inter-Group Body deposits

Each inter-group body must also open a deposit account at the partner peoples' bank. For provision of technical assistance services (preliminary analysis of loan applications, monitoring of associations and loan recovery), Inter-Group Bodies will receive 30 per cent of the interest paid on loans granted to member associations, whatever the source of the funds used to finance the loan might be. A statement of the commission must be drawn up monthly and communicated to the Inter-Grouping, CARE and UBPR at the same time as the other reports. Commission is paid on each loan repayment.

## Results and impact

CARE/Rwanda has worked extremely hard to organize SCAs and Inter-Group Coordinating Bodies in the three provinces where the CLASSE-Intambwe methodology is being used. In fact, as shown in the table above, a bit over 1,000 SCAs, supported by 19 Inter-Group Bodies, exist in this part of northeastern Rwanda. With the size of groups reportedly being between 20 and 30, this means that somewhere between 20,000 and 30,000 rural poor have been mobilized by the three CARE projects. In principal, all groups now have savings accounts in their respective peoples' banks, and many group members have opened personal, individual accounts, thus bringing many into the financial mainstream.

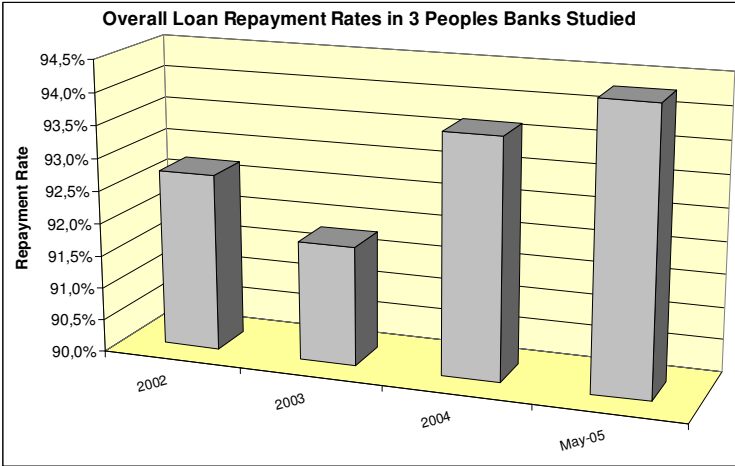
The linkage's overall effect on bank membership, savings, loan and asset growth, as well as bank profitability, etc. is not clear, as shown in the statistical summary (see following page) of the three banks whose linkage operations with SCAs were researched.

Yet, if the banks can eventually serve a majority of the 20,000 to 30,000 and more new SCA members, and bring large numbers of them into the mainstream as individual bank members, then the methodology will clearly have been a success.

Less than a quarter of the SCAs have received loans so far, but repayment has been 100 per cent for these. Based on the sample of three peoples' banks, however, it would appear that the CLASSE-Inhambwe group methodology is having a positive effect on the banks' overall repayment rates, as shown in the Figure 2 on the preceding page.

The following Table 2 shows the status of loans granted to SCAs with CARE's Credit Fund a little more than a year into the programme.

*Figure 2 Overall Loan Repayment Rates*



*Table 2 Peoples Bank-SCA Loan Summary as of 31/09/05<sup>1</sup>*

Peoples Bank	Number of SCAs	Number of Loans	Total Amount Granted	Guarantee (25 % block savings)	Capital Reimbursed	Outstanding Balance
Buliza	53	23	12,341	3,085	5,354	6,987
Humure	130	36	16,386	4,096	6,268	10,117
Kabarore	82	36	22,847	5,712	5,874	16,973
Karangazi	12	10	9,310	2,327	4,120	5,190
Kinihira	148	28	19,877	4,969	9,046	10,831
Kisaro	186	33	16,046	4,012	4,016	12,030
Matimba	70	27	19,923	4,981	4,216	15,707
Ngarama	97	31	19,023	4,756	6,845	12,178
Nyagatare	35	17	7,727	1,932	3,116	4,612
Rukomo	15	11	10,241	2,560	4,427	5,814
Rulindo	153	28	17,180	4,295	7,153	10,027
<b>TOTAL</b>	<b>981</b>	<b>280</b>	<b>170,901</b>	<b>42,725</b>	<b>60,434</b>	<b>110,467</b>

<sup>1</sup>Exchange used 1USD=537 Rwandan French Francs

### **On the Peoples' Banks**

The impact of the financial linkage on peoples' banks is not yet very discernable because the majority of SCAs are now taking out their first loan. Few have embarked on a second loan, taking into account that the maximum amount of the first loan is approximate US\$930. In terms of absolute value, this amount is small compared to the maximum amount of credit granted by people's banks to private individuals.

Nevertheless, the partner people's banks have begun to experience an increase in their membership, and their aim of re-injecting the savings collected into the rural economic circuit is gradually taking shape and is actually being achieved. In addition, the material guarantee (collateral) requirement no longer hinders access to financial and non-financial services thanks to the spread of risk among SCA members. Consequently, their aim of reaching the poorest, and their plan to finance rural areas in order to contribute to poverty reduction, has a good chance of succeeding by means of this financial linkage.

Another significant outcome is the professional training provided by CARE/Rwanda to the personnel of partner peoples' banks. Such training, which aims to give them technical expertise, is likely to have a long-term positive impact regarding the future management of peoples' banks and in terms of innovation of products developed by them.

### **On Savings and Credit Associations**

The most notable impact is likely to be the strengthening of social capital arising from the additional revenues generated by the group loan received from the people's banks, which is allocated to various social purposes. The text to the right illustrates this.

The immediate outcome for SCAs also includes the growth of associations'

#### **Box 1 Example on Savings and Credit Associations**

The account given by the Duteraninkunga/Kibondo SCA in Umutara Province, with 25 members, of whom 19 are women and 5 are men, provides some insight into how their SCA's earnings increased. This association took out a loan of US\$1,000 from the Kabarore peoples' bank which it invested in buying and reselling sorghum. After payment of the principal and interest, the remaining profit stood at US\$400. The same association received a loan of US\$280 which it used to buy a mobile phone to be hired out. A calling card purchased for roughly US\$37 brings in average profits of US\$20 per month. Many similar examples abound.

revenues, thanks to the leverage provided by loans received, learning to set up small income-generating projects and securing of their assets.

### **On Peoples' Bank member/customers**

The impact of the financial link on customers is inextricably associated with the impact created by the local lending organization. In most cases, a loan taken out from a partner peoples' bank serves to strengthen the local organization. In accordance with their methodology, the sum received is redistributed among the members of the organisation in the form of a loan, but at a higher rate of interest than that charged by the peoples' bank. In general, the internal rate of interest of the local organization is 10 per cent per month, while the lending rate at people's banks is approximately 1.1 per cent per month. However, the income growth of households that are members of associations affiliated to the link is quite remarkable, so much so that the loans and heavy interest charges are easily paid. Stories such as the following, "I have a goat thanks to a loan received from the SCA. I can easily pay my children's school fees, I buy fashionable clothes, and I no longer ask my husband for money to buy salt..." were told to the researchers by nearly all the SCA members encountered.

In addition to income growth, establishment of the linkage also encourages the majority of association members to open bank accounts. Consequently, people no longer need to hoard their money and/or use it for unnecessary purposes. Security and planned spending are positive results arising from the linkage that benefit customers.

### **On the financial sector**

The primary impact of the financial linkage on the Rwandan financial sector is *integration* of the formal and informal financial sectors. The compartmentalisation and imbalance between the formal and informal financial sectors in Rwanda truly hindered economic development. Therefore, establishment of a financial linkage between SCAs and BPs will obviously promote increased interaction between the two sectors.

The second impact of the financial linkage concerns the contribution of the financial sector to the national poverty reduction strategy. Indeed, financing of rural activities by the formal financial system will entail revitalization of farming, the freeing up of the farming sector driven by entrepreneurial spirit among rural dwellers and development of economies of scale. These new elements will undoubtedly have a positive impact on poverty reduction efforts in Rwanda.

### **Macrolevel impacts**

Penetration of rural areas by the formal financial sector, with suitable financial conditions, thereby leads to an increase in the degree of monetization. Such increase facilitates exchange of goods and services, and as a spin-off, monetary circulation speeds up and macroeconomic advantages increase. Indeed, in the medium term, taking into account the economic context of Rwanda, success of the financial linkage between SCAs and peoples' banks, and/or with the financial sector in general, will encourage development of commercial centres in rural areas and lead to the creation of basic infrastructure (roads, schools, healthcare centres, etc.) and recreational facilities (sports fields, motels, cinemas, etc.). Such development of diversified economic activities will obviously lead to enrichment and development of the national economy, which is the ultimate indicator of a country's degree of development.

## Conclusions and key lessons learned

The financial linkage being described was conceived as an attempt to trigger a dynamic process to integrate the rural population into the formal financial system, which obviously opens up more profitable economic opportunities than informal financing. How far has the programme gone towards achieving this objective?

While the programme is still in its early stages, the rapid progress and impressive achievements to date tend to confirm that it *is* an effective way to bring the rural poor into the financial mainstream. The financial linkage has facilitated and set in motion access by significant numbers of the poorest to financial services. It should be borne in mind that less than 2 per cent of CLASSE-Intambwe SCAs had a bank account before the linkage was set up, compared with a current level of approximately 90 per cent. It also should be noted that in addition to associations opening deposit accounts to benefit from loans from partner peoples' banks, association members also gradually are opening personal accounts to keep their own personal funds safe. Therefore, the financial linkage has definitely led to interactive stimulation between banks and rural populations.

In the 11 participating peoples' banks, approximately 25,000 rural poor have been organized into just less than a thousand SCAs supported by 19 Inter-Group coordinating bodies. Less than a quarter of the groups have now taken out loans from the CARE funding, and loan repayment, as seen above, remains at 100 per cent in this young programme. The programme is having a significant, but difficult to measure, effect on increasing peoples' banks' membership, savings, loans, assets and earnings. As previously noted, it also seems to be having a positive effect on overall repayment rates of the peoples' banks themselves, at least in the three banks chosen at random by the researchers conducting the study.

Another lesson that would seem clear from this experience is further confirmation, as if it were needed by anyone, that the poor do not have great difficulty paying as high as 10 per cent interest per month on the subloans they received from the group loan provided by the peoples' banks. Clearly, timely *access* to credit is much more important to the poor than its cost. The problem of access to credit is rather a question of suitable services, geographic accessibility, recognition of customers and their needs and product flexibility, rather than the interest rate. It is well-intentioned, but misinformed, public servants that frequently raise the alarm that interest rates are too high to be affordable by the poor; whereas if the poor themselves are asked their opinion, it's *access* that matters to them.

Other reasons offered by various respondents for the perfect repayment rate for CLASSE-Intambwe associations include the following:

- The associations were initially intensively trained at grassroots level in the CLASSE-Intambwe credit approach and methodology.
- The risk of non-repayment is reduced because it is spread among several persons (the SCA members).
- The Inter-Group Bodies, which have greater knowledge of the SCAs and their members, play an important intermediary role between an association that is requesting a loan and the peoples' bank that is granting it.
- The local lending organisation and the social fund (*ingoboka*) have a stabilizing influence on the incomes of the borrowing association's members. Therefore, loans are allocated to activities with high capital-intensive value that generate the most financial gains, since the profits to be spent on community investments are highly desired by all.

It is also important to point out that before embarking on the borrowing process, CLASSE-Intambwe SCAs all first had to set themselves a common goal. This is a key lesson

because it indicates a certain mastery of strategic and operational planning by CLASSE-Intambwe associations.

Visits to villages having gone through this process is instructive, since it is impossible not to notice the change of habits and standard of living of CLASSE-Intambwe SCA members compared with their neighbours who are not members. CARE's experience in the field, backed up by many eyewitness accounts, has certainly proved this.

### **Need for additional research**

While all this success early on is heartening, the programme needs to be monitored over the next few years to ascertain if it works as well once greater scale is attained. Some of the areas that need particular attention as the programme expands are perhaps the following:

- Gender breakdowns to distinguish behaviour.
- Monitor repayment of different types of loans.
- Cost the programme to enable calculations on becoming sustainable.

The last point is particularly important, because the current study made no attempt to look at costs versus benefits. Serving the remote, rural poor by linking their associations to professional financial service providers like Rwanda's peoples' banks seems an effective way of providing services and transitioning people into the financial mainstream. The question is, at what cost? While the author of this article believes that while such approaches will never be strictly sustainable, they are still worthwhile investments by development agencies because of the hundreds of thousands of poor that are lifted out of poverty and 'mainstreamed' by them. In theory, the investment need be made only once, and then the group coordinating bodies would presumably be phased out, as the population graduates out of poverty. Human nature being what it is, however, it is likely that once started, the IGs may well take on a life of their own, and not want to cease operations when their original goal is accomplished. If so, they will need to identify a new goal to achieve.

### **Preconditions for this type of financial linkage**

Those wishing to emulate or adapt CARE's CLASSE-Intambwe methodology to affect poverty-reduction in their own countries should be aware of the preconditions necessary for it to work properly:

- There needs to be a wide network of rural-based financial service providers (credit unions, banks or MFIs, preferably, but perhaps NGOs as well to provide the professional financial services (term deposits and loans) that are the key to success. Said service providers should be no more than a day's walk from the ultimate borrowers.
- There must be a competent and sufficiently funded NGO or other organization capable of creating, nurturing, training and encouraging the institutional development of the village associations and the regional Inter-Group Bodies, who in addition must be capable of and willing to assist in loan follow-up and recovery.
- The legal and regulatory framework should encourage this type of approach, or at least not disallow it.

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