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Microfinance and Economic Growth: Rwanda

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Acronyms

ADECOR	Rwanda Consumer Association (*Association des Consommateurs du Rwanda*)
AMIR	Association of Microfinance Institutions in Rwanda (*Association des Institutions de Microfinance du Rwanda)*
AFR	Access to Finance Rwanda
BNR	National Bank of Rwanda (Banque Nationale du Rwanda)
COOPEC	*Coopérative d'Epargne et de Crédit*
COOPEDU	Coopérative d'Epargne et de Crédit Duterimbere
CRB	Credit Reference Bureau
DFID	UK’s Department for International Development
ESRC	UK’s Economic and Social Science Research Council
GoR	Government of Rwanda
MFI	Microfinance Institution
MNO	Mobile Network Operator
MINECOFIN	Ministry of Finance and Economic Planning
MINICOM	Ministry of Commerce, and Industry
RCA	Rwanda Cooperative Agency
RWF	Rwandan Franc (USD 1 = RWF 730, 2015 rates)
SACCO	Savings and Credit Cooperative
VSLA	Village Saving and Loan Association

1. Introduction

1.1 The Study

This report outlines findings from a study of access to finance and microfinance regulation in Rwanda. The research examines the challenges faced by micro-enterprises and informal-economy businesses working in growth sectors of the economy, and their requirements for strengthening access to finance and consumer protection. Micro-entrepreneurs were the main focus of this research, although there are many other users of microfinance.

The study, *Inclusive Growth: Improving Microfinance Regulation to Support Growth and Innovation in Micro-enterprise,* is one of a series of projects funded under DEGRP (DFID-ESRC[1] Growth Research Programme) focusing on three themes of financial sector development, agriculture and growth, and innovation and productivity. The report starts with a literature review on microfinance in Rwanda and then discusses survey findings and policy recommendations.

1.2 Objectives

This research examines the link between microfinance and urban livelihoods, exploring the challenges of access to finance for micro-enterprises, the vulnerabilities caused by unscrupulous lending practices, and the potential for improved financial access to contribute to poverty reduction and economic growth.

Since 1983 when the Grameen Bank in Bangladesh began making tiny loans to village savings groups, microfinance has emerged as a key tool of development policy based on the assumption that improved access to finance will trigger entrepreneurship and smooth shocks. Microfinance is now a major supplier of financial services to millions of people in the developing world. Yet concerns have emerged about its reach, regulation and oversight, application in urban areas, and impact on growth, poverty reduction and indebtedness.

Research on the impact of micro-credit and microfinance on poverty is inconclusive, and there is an imperative need to examine further the conditions in which savings and micro-credit help or harm low-income households. For example van Rooyen *et al* (2010 and 2012) concluded that microfinance may make some people poorer, not richer, and the focus on reaching the poorest-of-the-poor may be flawed.

Against this background, the project analyses the barriers, benefits and risks to micro-enterprises in accessing a range of financial services and the potential of improved consumer protection to address them. It explores demand and supply-side opportunities and barriers influencing micro-enterprises' access to finance, and potential alternatives, particularly in urban settings. The philosophy of the research is that, while microfinance is not a guaranteed route out of poverty, micro-enterprises and informal-economy businesses should have access to secure savings and borrowings with transparent costs, and without excessive interest rates or time burdens.

1.3 Approach

The study is based on comparative research in Tanzania, Rwanda, Kenya and Ethiopia, and a comparison with India's more developed financial system, focusing on major cities and secondary towns and on micro-enterprises in economic growth sectors: vending, construction, tourism, manufacturing and services. The findings in Rwanda draw on 206 semi-structured interviews with micro-enterprises in Muhanga (Gitarama), Musanze (Ruhengeri) and Kigali and Expert Interviews (EIs) with regulators, microfinance providers/promoters and savings groups.

[1] DFID = Department for International Development (UK Aid); ESRC= the UK's Economic and Social Science Research Council

Drawing on a literature review, this report first provides a brief history of the MFI (microfinance) sector in Rwanda and outlines the institutional policy, legal and regulatory framework, policy instruments to promote microfinance and major innovations (mobile money technology, agent banking and bank-MFIs linkage). Financial Consumer Protection (FCP) measures are also considered as a key regulatory innovation. Based on survey results, the report then provides a synthesis of survey results on access to finance for micro-enterprises, and makes policy recommendations.

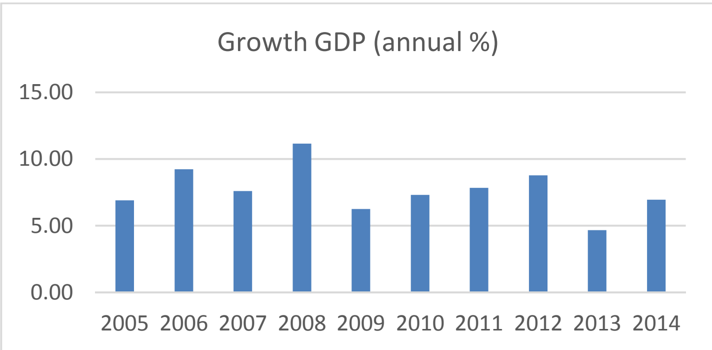
1.4 Rwanda - Context

Rwanda is a landlocked country with a population of around 12.4m in 2015, set to increase to 17.7m by 2030. The country has a large rural population and the level of urbanisation is relatively low, predicted to increase from around 28.8% in 2015 to 41.5% by 2030 (UNDESA 2014). Thus the urban population is likely to double from around 3.6m in 2015 to 7.3m in 2030, with much of the growth focused on Kigali.

Following the 1994 genocide, the Government of Rwanda (GoR) attached considerable weight to reconciliation, and introduced a series of economic reforms to transform the Rwandan economy. National policy backed by overseas development assistance focussed on education, health and governance reform. In 2000, the government adopted *Vision 2020* with the aim of transforming Rwanda into a middle-income country by 2020, and developing a knowledge-based economy. The vision was of a united Rwanda, competitive both regionally and globally.

Recovery of the Rwandan economy has been exceptional (MF Transparency, 2011). From 2005 to 2014, the annual percentage GDP growth averaged around 7%, and GDP per head of the population increased from US$ 973/capita to US$ 1,484/capita (PPP) (WB 2015, Figure 1).

Figure 1: Rwanda Annual percentage GDP growth, 2005-2014)



Source: World Bank country data, Rwanda (WB 2015)

The small and medium enterprise (SME) sector remains core to the GoR's economic growth and employment strategies. The Ministry of Trade and Industry's *Small and Medium Enterprises Development Policy,* 2010 (MINICOM 2010), emphasises the need to increase non-farm employment, develop business and technical skills in the Rwandan workforce, strengthen the financial sector, grow the tax base and facilitate investment finance to generate industrial growth. SMEs are defined in the strategy by employee numbers, turnover and investments[2]. Under the policy, refinancing for microfinance institutions is supported by the Rwanda Development Bank.

The *Economic Development and Poverty Reduction Strategy, 2013-2018: Shaping our Development* (EDPRS II) (GoR 2013) aims to transform Rwanda into a middle-income country, and an economic trade and financial hub by the year 2020. According to the analysis in the EDPRS II,

[2] Micro-enterprises = 1-3 employees, small enterprises = 4-30 employees, medium enterprises = 31-100 employees.

over 90% of firms in Rwanda are informal and have three or fewer employees, and in the last five years the sectors with the largest (non-farm) job growth have been retail (30,000 new jobs a year), construction (16,000), government (14,000) and transport (7,000). The EDPRS II estimated that there were over 1 million informal sector household enterprises in Rwanda, and less than 300,000 jobs in the formal private sector (GoR 2013: 58, 66).

A central element of the EDPRS II's strategic framework for productivity and youth employment includes focusing on new job creation through private-sector SMEs, improving the work-relevance of education, and leveraging the potential of ICT to raise productivity (GoR 2013: 60). Core strategies are: to support micro-enterprise creation by reducing barriers to entry; improving access to finance for small enterprises through policies in the *Financial Sector Development Program, 2008* (FSDP 1), through growth of SACCOs (Savings and Credit Cooperatives, and developing market information to promote growth of non-farm enterprises. EDPRS II also emphasises the importance of training, developing cooperatives and associations, and developing SME product clusters (GoR 2013: 67-68). The strategy sees Rwanda as a financial hub for East Africa, but although internet and fibre-optic services are now widely accessible, basic education needs developing (EI).

2. Micro-credit Landscape in Rwanda

2.1 Brief History of Microfinance in Rwanda

The microfinance sector in Rwanda is relatively young. Although informal mutual help organisations have existed for years, the sector was formalised in 1975 with the establishment of the first Banque Populaire (Mutual Saving Bank). After 1994, international humanitarian organisations encouraged rapid growth of microfinance as part of wider relief and reconciliation programmes.

The period during the mid-1990s was characterised by the emergence of new microfinance providers who used various approaches. Often, there was no clear differentiation between loans, subsidies and donations, causing confusion for savers and borrowers, and a number of un-registered providers were operating.

The result was a culture of non-repayment, leading to non-performing loans exceeding 45% of total outstanding credit, which adversely affected the operations of MFIs (AMIR 2011). Due to corruption and poor management of funds, in 2006, the GoR, through the National Bank of Rwanda (BNR), stepped in and closed eight MFIs. Around 195,000 depositors lost their savings and although the government agreed to pay 50% of the deposits of all clients in these MFIs the events caused a huge loss of public confidence in the MFI sector.

The GoR initiated an urgent response in 2007, publishing the *National Microfinance Policy Implementation Strategy* 2008-2012 (MINECOFIN 2013) followed in 2008 by the Microfinance Law and its accompanying regulations, and the 416 Umurenge SACCOs in 2009[3]. Each initiative is described further below.

2.2 Policy and Institutional Framework

The *National Microfinance Policy Implementation Strategy 2008-2012*, aimed to create an effective and efficient financial system, with a target of achieving financial access for 80% of the adult population by 2017. The reforms also aimed to address constraints in the microfinance sector such as the lack of refinancing mechanisms for MFIs, the inability of MFI staff to manage the institutions, and the limited access of women to financial services.

This policy framework established by the Ministry of Finance and Economic Planning (MINECOFIN) sets out the microfinance sector's strategic vision. This framework specifies that the role of the State is to create an enabling environment for the development, growth and progress of MFIs towards self-sufficiency, with a view to incorporating the microfinance sector into the financial sector.

The policy was rapidly followed by promulgation of *Law N^o 40/2008 of 26/08/2008 Establishing the Organisation of Microfinance Activities* (GoR 2008), known as the Microfinance Law, which established the organisation and supervision of microfinance activities. The Microfinance Law was adopted by Parliament in 2008 and published in the Official Gazette N^o 13 of 3 March 2009.

Under the legislation, leading agencies responsible for promoting the microfinance sector are the National Bank of Rwanda (BNR), Ministry of Finance (MINECOFIN, Microfinance Unit), Rwanda Cooperative Agency (RCA), Association of Microfinance Rwanda (AMIR) and Rwanda Development Bank (BRD).

[3] Local government in Rwanda is divided into 30 Districts and 416 Sectors

The National Bank of Rwanda is the regulatory and supervisory Authority of the banking and microfinance systems, non-bank financial institutions (including the insurance industry, pension schemes) as well as the payment systems. The Bank also operates as the central security depository. MINECOFIN is responsible for promoting and developing the sector, and aims to promote savings, develop credit and mobilise resources for MFIs. MINECOFIN is also responsible for coordinating the successful implementation of the National Microfinance Strategy.

The Microfinance Law also introduces provisions for greater security within the sector and calls for more professionalism from actors, with particular emphasis on the security of deposits, MFI governance and management.

2.3 Types of Microfinance Providers

The Microfinance Law governs the organisation of activity of microfinance institutions in Rwanda. Articles 3-7 establish four microfinance categories:[4]

1. ***Category 1*** – informal microfinance institutions which do not require prior licence. They are constituted as tontines, which operate on the basis of the contributions made by their members. They require no legal status or licensing from the Central Bank to exercise their activities, although they must register with the nearest local administrative entity;
2. ***Category 2*** – microfinance institutions which are governed by laws on savings and credit cooperatives, where their collected deposits total less than RWF 20 million[5]. Such institutions may not have more than one point of service or service outlet;
3. ***Category 3*** – microfinance institutions which accept public deposits and have adopted legal status of a corporation or of a savings and credit cooperative, where their deposits total or exceed RWF 20 million. Such institutions are required to observe all rules of management and prudential norms defined in the microfinance law and applicable regulations; and
4. ***Category 4*** – microfinance institutions which do not accept deposits from the public (non-bank financial institutions).

2.4 Operational Framework

The Microfinance Law is further supported by *Regulation No. 02/2009 on the Organisation of Microfinance Activity* (the Microfinance Regulation). Together these form the legal framework for oversight of Categories 2, 3 and 4 of MFIs.

Under the legislation, licensed microfinance institutions may only be constituted in the form of a corporation, limited liability corporation, or credit and savings cooperative. However, an institution constituted as a limited liability corporation is not allowed under the law to collect deposits from the public (Microfinance Law, Article 8).

All applications for the licensing of microfinance institutions must be submitted to the National Bank of Rwanda (BNR). With the exception of Category 1 MFIs, it is prohibited by law to engage in microfinance activities without prior authorisation of BNR (Microfinance Law, Articles 9, 15, 16). People engaging in microfinance activities without a license are liable to imprisonment of between six months to three years, and fine of RWF 1-5 million (Microfinance Law, Article 103). BNR is required to process license applications within three months of submission and must issue

[4] See also Regulation No. 02/2009 on the Organisation of Microfinance Activity ("Microfinance Regulation"), Article 2.

[5] Article 10 of the Microfinance Law provides that where deposits received by a Category 2 microfinance institution equals or exceeds the RWF 20 million threshold, the institution will automatically fall under Category 3 and must immediately notify BNR in order to proceed with the modification of its licensing certificate.

a decision and notify the promoters (or their representatives) of the outcome. Successful applications will be granted a license certificate (Microfinance Law, Article 12). BNR is granted the power under the Microfinance Law to supervise (or delegate the authority to supervise) these MFIs (Microfinance Law, Chapter IV).

Microfinance institutions are authorised under the Microfinance Law to exercise activities related to the receiving of deposits and/or the granting of loans (Microfinance Law, Articles 17-18). Similar activities and services to the public are permitted by BNR, comprising:

(i) the delivery of remunerated services providing advice/ training to members or clients;
(ii) micro-insurance operations;
(iii) transfer of funds operations for client accounts made within the same institution or network;
(iv) external transfer of funds operations, not denominated in foreign currency, with other banks and other registered financial institutions;
(v) purchase and sale of currencies, and
(vi) any other activity as defined by BNR (Microfinance Law, Article 19).

Section IV of the Microfinance Law sets out the governance requirements of micro finance institutions. In particular, that the Board of Directors of the microfinance institution must have the responsibility to observe and safeguard the norms of good governance (Microfinance Law, Article 20). Section V lays down the prudential rules of management of registered microfinance institutions, namely that each microfinance institution must at all times maintain a minimum cash ratio, and a solvency ratio above the threshold as set by BNR (Microfinance Law, Articles 26-27). Interest rates set by the MFI must enable it to recover its operating expenses, including the cost of capital and losses on loans to ensure the stability of its activities. Thus, MFIs are required to supply financial statements to BNR (Microfinance Law, Section IV).

Failure by microfinance institutions to comply with the legislative and regulatory requirements may lead to disciplinary action, culminating in the withdrawal of the operating license for the most severe forms of non-compliance (Microfinance Law, Chapter VI).

The implementing regulation of the Microfinance Law, Regulation n°02/2009 of 27/05/2009 deals with: licensing; credit information bureau (CRB); internal control; financial reports; good governance norms; special provision for MFI unions, and supervision and control.

2.5 Microfinance Policy Development

The *Financial Sector Development Program, 2012* (FSDP II) (MINECOFIN 2012) aims to mobilise resources to address the development needs of the economy and reduce poverty. FSDP II contains four main strategies: financial inclusion[6]; developing institutions, markets and infrastructure; investment and savings; and consumer protection. These are implemented through a range of programmes, including: broadening and deepening financial literacy; strengthening Umurenge SACCOs, and investment in SMEs, agriculture and housing.

The *National Microfinance Policy and Implementation Strategy, 2013-2017: Roadmap to Financial Inclusion* (NMPIS 2013-2017) (MINECOFIN 2013) followed on from the *National Microfinance Policy Implementation Strategy, 2008 – 2012*. THE NMPIS 2013-2017 aims to bring adequate financial services to the whole population, and to increase financial inclusion, defined as enabling universal access to a broad range of financial services at reasonable cost (MINECOFIN 2013: 6).

[6] Rwanda uses the FinScope methods to define financial inclusion, to include: depositors and borrowers at BNR registered institutions; cellphone banking participants; insurance policies (including micro-insurance); savings and deposits in SACCOs and MFIs and semi-formal VSLAs (Village Savings and Loans Associations) (Andrews *et al*. 2012)

The NMPIS 2013-2015 is a key strategy for implementing the EDPRS II, and identifies the core challenges as reducing financial exclusion, particularly for people with no current access to financial services, and deepening and diversifying the range of financial services available. The aim is to support product development and innovation, and to strengthen the sustainability of delivery institutions. The goal is to achieve formal financial inclusion of 80% of the population by 2020 (MINECOFIN 2013: 9).

Five strategic drivers are envisaged to implement the NMPIS 2013-2017:

Macro-level	1. Improving the legal and regulatory framework
Meso-level	2. Strengthening of microfinance support structures
Micro-level – supply side	3. Strong and sustainable providers offering financial services clients need
	4. Access to funding for Microfinance Institutions for improved outreach
Micro level: demand side	5. Responsible finance, consumer protection and financial education

The NMPIS 2013-2017 noted that by the end of 2012, eight Rwandan financial institutions had signed the Smart Campaign, a global campaign to internationally recognise Client Protection Principles (Smart Campaign 2015). These include: avoidance of over-indebtedness, transparent pricing, appropriate collection practices, ethical staff behavior, complaints procedures, and privacy of client data (MINECOFIN 2013: 32).

2.6 MFIs in Rwanda – Supply Side

At the end of December 2014, Rwanda's banking sector included 10 commercial banks, four microfinance banks, one development bank and one cooperative bank, and the network included 515 outlets, including 171 branches, 182 sub-branches, and 162 counter outlets (BNR 2015). There was a slight fall in the number of client accounts from 2,704 in December 2013 to 2,233 in December 2014.

The microfinance sector included 13 limited companies, 416 Umurenge SACCOs and 64 non-Umurenge SACCOs (BNR 2015). According to BNR the microfinance total assets were valued at RWF 159 Billion (approximately USD 217m) in December 2014 (BNR 2015, Table 1).

From December 2013 to December 2014, gross loans increased by 22.3% from RWF 73.5 billion to RWF 89.9 billion and deposits by 23.9%, from RWF 69.5 billion to RWF 86.1 billion, which means that the system is more or less in balance. This performance is mainly driven by the growth of Umurenge SACCOs (see below) (BNR 2013: 31) (Table 2).

Table 1: MFIs performance indicators (including Umurenge SACCOs) (RWF billion unless stated)

	RWF billion, Dec 13	**RWF billion, Dec, 14**
Total Assets	128.7	159.3
Total Liquid Assets	42.1	55.3
Net Loans	71.2	86.8
Gross Loans	73.5	89.9
Non-performing Loans	4.9	6.3
Provisions	2.5	3.1
Total Deposits	69.5	86.1
Current Accounts	52.3	63.6
Net Equity	43.0	52.8
Non-Performing Loans Ratio	6.8%	7.0%
CAR (Capital Adequacy Ratio)	33.4%	33.2%
Quick-Liquidity Ratio	80.5%	86.9%

Source: *Monetary Policy and Financial Stability Statement, BNR (2015: 34)*

According to BNR, MFI and SACCO compliance with prudential norms has significantly improved the indicators (total assets, deposits and loans), although there are distinct differences in loan providers between different economic sectors (Table 2).

Table 2: MFI loans by economic sector

MFIs/SACCOs Outstanding loans, December 2014	**U-SACCOs RWF bn**	**U-SACCOs %**	**Other MFIs RWF bn**	**Other MFIs %**	**Total RWF bn**	**Total %**
Agriculture, Livestock, Fishing	6.31	22.8%	5.81	9.4%	12.12	13.5%
Public Works (Construction) Buildings, Residences/Houses	3.42	12.3%	25.3	40.9%	28.72	31.9%
Commerce, Restaurants, Hotels	13.65	49.2%	19.11	30.6%	32.76	36.4%
Transport, Warehouses, Communications	1.57	5.7%	1.86	3.1%	3.43	3.8%
Others	2.78	10.0%	10.14	16.0%	12.92	14.4%
Total	27.73	100.0%	62.22	100.0%	89.95	100.0%

Source: *Monetary Policy and Financial Stability Statement, BNR (2015: 36)*

The high figure for housing is surprising, and it is unusual that 'commerce' (petty trade) is not more significant, although of course many people do not use loans for the purpose stated.

2.7 Financial Inclusion – Demand Side

Information on changing patterns in the use of financial services is provided by the FinScope surveys. Two FinScope surveys for Rwanda were completed in 2008, and 2012. The 2012 survey was commissioned by Access to Finance Rwanda (AFR), which was launched in 2008 at the request of GoR, with support from the UK's Department for International Development (DFID) and the World Bank. The core aim of AFR is to remove systemic barriers to accessing financial services.

The 2012 survey took place in 615 enumeration areas, with 10 face-to-face randomly selected interviews in each area, resulting in 6,150 interviews (AFR 2012). The information was benchmarked against the *2010/11 Integrated Household Survey*. The FinScope methodology uses four 'access strands' to denote the level of financial inclusion: i) use banks; ii) have/use non-bank formal products; iii) use only informal mechanisms, and iv) excluded. Respondents are ranked according to their highest level of usage.

The surveys recorded a significant increase in financial access between the 2008 and 2012 surveys. During this period, the level of formal financial access among the adults increased from 21% to 42%, with banks recording an increase from 14% to 23%, MFIs[7] remaining constant and Umurenge SACCOS[8] providing access to 22% of adult population (Figure 2).

The FinScope survey suggested that while access to formal financial services in Kigali had jumped from 33% to 66% between 2008 and 2012. In other urban areas while access to formal financial services (banks and non-bank services) had increased from 33% to 40%, the use of formal banks had declined from 26% to 21%, presumably due to the increased access to Umurenge SACCOs (Figure 3).

[7] The Rwanda FinScope Survey differentiates Umurenge SACCOS from other MFIs. On the other hand, the Tanzania FinScope Survey, 2009 treats SACCOS as semi-formal MFIs.

[8] Umurenge SACCOS is a government-donor scheme was established with a view to setting up a network of SACCOS in each administrative district.

Figure 2: FinScope Rwanda Access Strands: 2008 and 2012

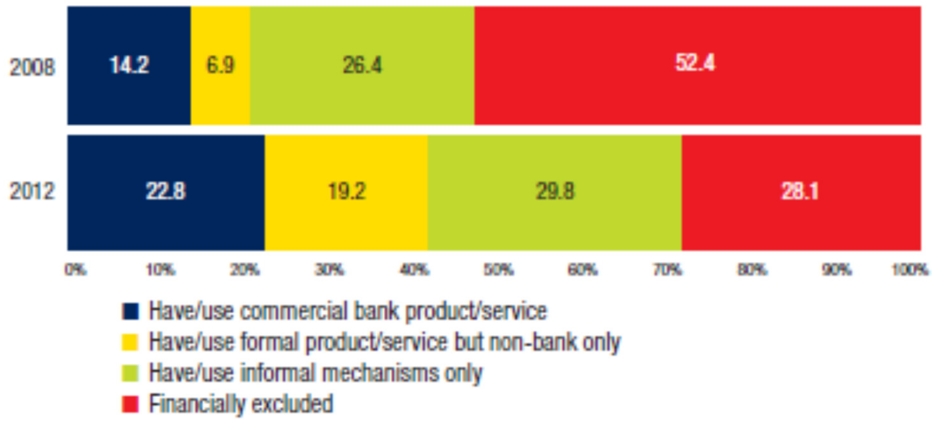
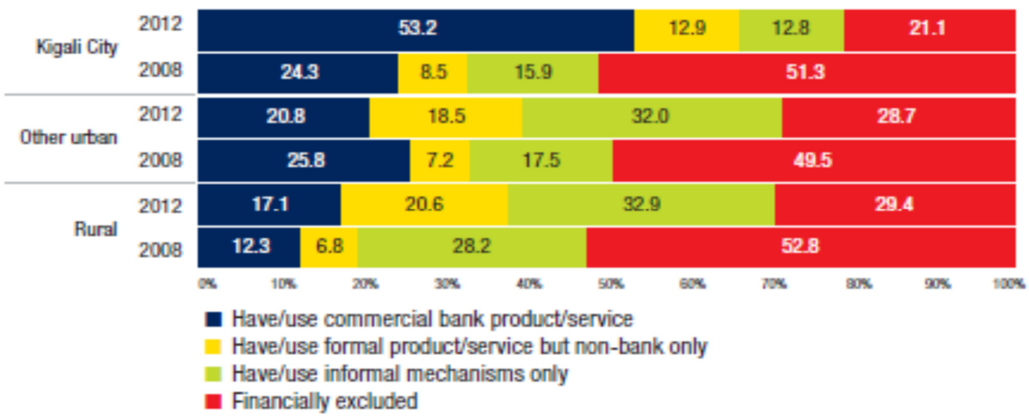
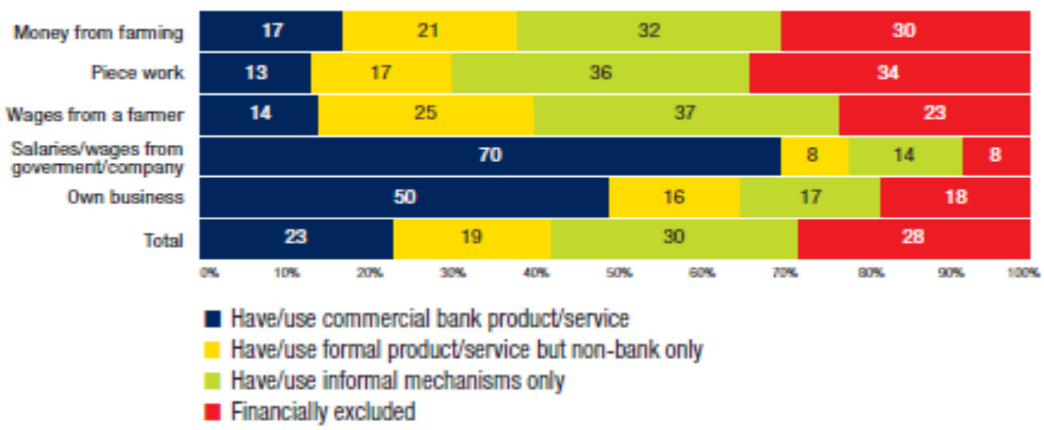


Figure 3: FinScope Rwanda Access Strands – Urban & Rural: 2008 and 2012



Those who owned their own businesses were much more likely to use formal financial services than those who undertook piecework, or worked in farming (Figure 4).

Figure 4: FinScope Rwanda Access Strands by Type of Work: 2012



The FinScope survey also estimated that 60% of adults live within 5 km radius of a commercial bank branch and ATM (compared with MFIs – 44% and Umurenge SACCOS - 91%). These results indicate that the Umurenge SACCOS network has the highest geographical proximity. Depending on the sustainability of these schemes, it offers a high potential for improving financial access to low income households and micro-enterprise operators.

A review of various policy documents and financial sector performance reports (eg: BNR reports, MINICOM 2010, MINCOFIN 2013) suggests that the recorded increase in financial access is the result of both policy interventions and market responses on the demand and supply side. Policy interventions by GoR and development partners include measures to foster growth and performance of micro-enterprises and microfinance. Market solutions include innovations and entry of new players in the financial sector. However, much progress is needed if the NMPIS 2013-2018 target of 'formal financial inclusion of 80% of the population by 2020' is to be met.

2.8 Savings Groups (VSLAs)

EIs reported that the use of savings groups is very high in Rwanda. Although most savings groups operate independently and are not recorded, one comparative source of information is the SAVIX reporting system (SAVIX 2015), which collects and validates financial and operational data from over 170,000 savings group promoters and organisations in all regions of the developing world and the agencies that promote them.

SAVIX data for Rwanda records 9,993 collective saving and borrowing groups, with 285,256 members, equating to an average of 29 members per group (Appendix 3). The total savings is approximately US$ 5,518,216 equating to US$ 19.3 per member. Total value of loans is US$ 3,746, 485 and the average value of loans outstanding per member is US$23.0. Collective saving and borrowing is clearly extending financial services as 79% of members are women. Member retention per cycle is 99% (SAVIX 2015).

CARE Rwanda, one of the main facilitators of collective saving and borrowing groups in Rwanda, is recorded as having 5,206 groups, World Vision had 640, Plan International had 293, and Mercy Corps had 232, with other facilitators assisting the remaining 457 groups. The report reflects briefly on the approaches being pursued by the two primary facilitators, CARE and World Vision. However, the SAVIX information is now likely to be an underestimate, as in meetings for this research CARE Rwanda reported that their savings groups had increased from 6,000 in 2012 to 16,000 in 2015 (EI). There are minor variations in approach promoted by different NGOs.

The CARE-model is based on the concept of VSLAs (Village Savings and Loan Associations). VSLAs are voluntary groups whose members meet to save money on a weekly basis, and borrow against the weekly savings, forming a 'self-organised' financial sector (Allen 2006, EI). An important element of the VSLA methodology is the concept of 'breaking the cycle', usually once every 12 months, and the 'share-out' of profits. NGOs typically mobilise and support VLSA groups for 12-24 months with training, and graduate groups to self-sufficiency.

Savings groups have evolved a powerful methodology based on trust and regular meeting attendance, and are critical in developing a savings culture and giving support and solidarity to people who may otherwise have no access to financial services, particularly women. They can also provide significant opportunities for business development and collective learning, for example through bulk-buying of materials. Percentages of loan repayments are exceptionally high, often reaching around 98% because of the trust-based lending (EI).

However, VSLAs also place considerable demands on group members, through the time taken to attend regular meetings, and to cover the loan payment of defaulting members, a problem encountered by several survey respondents in this study. Furthermore, VSLAs are not legal entities, and thus not subject to any formal complaints procedure. The methodology generally works well in contexts where there is a relatively stable village population, but as Rwanda urbanises, translation of the methodology to urban areas provides more challenges.

2.9 SACCOs

SACCOs (Savings and Credit Cooperative Societies) are distinguished from other service providers as they are owned by members, and financial services are typically available only to members. The members of a cooperative are usually determined by their employment, income source or economic activity. SACCOs are formally registered as cooperatives.

SACCOs are regulated under both finance and cooperative law, and overseen by the Rwanda Cooperative Agency (RCA) and BNR (National Bank of Rwanda). The RCA is in charge of registration, regulation, inspection and audit of cooperatives including both Umurenge SACCOs and non-Umurenge SACCOS, and cooperates with local authorities to promote SACCO membership. A key area of work is technical and financial support for Umurenge SACCOs.

The World Council of Credit Unions' (WOCCU) annual survey reported 463 SACCOs in Rwanda, with 1.56 million members, shares of US$ 11.7 billion, loans of US42.6 billion and reserves of US$ 21.5 billion, although this is now an under-estimate. Market penetration was 22.8%, one of the highest in the sub-Saharan African countries in the WOCCU data (WOCCU 2015).

Umurenge SACCOs

Umurenge SACCOs were formed with the support of GoR 2008, as a component of the *National Savings Mobilization Strategy*, 2009 (MINECOFIN 2009). The *Umurenge SACCO Strategy, 2009* (MINECOFIN 2009) was a key element of the inclusion process, designed to set up a SACCO in each Sector (*Umurenge*) in order to provide access to financial services throughout the country. SACCOs are user-owned financial intermediaries, a legal entity formed as a cooperative, with the main objective of providing savings and credit facilities for members, financed mainly from their own resources. SACCOS are regulated under both cooperative and financial sector legislation.

One Umurenge SACCO was set up for each of the 416 sectors[9] in the country. The *Umurenge SACCO Strategy* was adopted in March 2009, and mayors and staff in the 416 Sectors played a key role in raising awareness of the new programme. By June 2010, all Umurenge SACCOs created under the programme were provisionally licensed by BNR, and by June 2013 all SACCOs were fully licensed by BNR, and allowed to reduce their liquidity ratios from the initial 80% to 60% (Kavugizo 2015). SACCOs are private cooperatives, but are financially supported by the government, which provides up to RWF 500,000 to each Umurenge SACCO per month to cover salaries of three technical staff. Credit was financing numerous small businesses (Devereux 2012).

The *Rwanda SACCO Sustainability Study*, 2012, notes that many of these institutions are still very young, having been formed in 2009-2010, and that none of them are able to operate independently of government support (OPM 2012). The study reported that 355 of the Umurenge SACCOs were licensed to extend loans (at December 2011), and that payments services are provided, especially in areas characterised by a lack of financial institutions. With respect to location and coverage, the study notes that these SACCOs are located in rural and urban areas, with the vast majority only having one branch/outlet with membership drawn from people living locally. The 2011 data showed the average membership of Umurenge SACCOs to be 2,000, with an average savings balance of around US$ 30 (OPM 210).

Umurenge SACCOs represent 45.3% and 52.9% of the total MFI assets and deposits, and are thus more significant in terms of savings and borrowings than SACCOs in other countries in this research. By the end of December 2014, 382 of the 416 Umurenge SACCOs (92%) had reached

[9] Local government in Rwanda is divided into 30 Districts and 416 *Umurenge* sectors.

break-even point and were able to manage their costs without external support, an increase from 356 (86%) at the end of December 2013. Total assets rose from RWF 57.4 billion from December 2013, to RWF 72.3 billion in December 2014. Loans granted 29% to RWF 27.7 billion and deposits rose by 24% to RWF 45.7 billion over the same period (Table 3) (BNR 2015, AFI 2014). However there are concerns about low aggregate repayment rates, which could undermine the financial viability of the scheme, with only half of loans recovered in the early years (Devereux 2012).

Table 3: Umurenge SACCO performance indicators (RWF billion unless indicated)

	RWF billion, Dec 13	RWF billion, Dec 14	Change Dec 13-Dec 14
Total Assets	57.4	72.3	26.0%
Total Liquid Assets	26.8	34.6	29.1%
Net Loans	20.8	26.7	28.4%
Gross Loans	21.5	27.7	28.8%
Non-performing Loans	1.6	1.9	18.8%
Provisions	0.7	0.9	28.6%
Total Deposits	36.9	45.7	23.6%
Current Accounts	32.7	39.9	21.7%
Net Equity	17.7	23.8	34.5%
Non-Performing Loans Ratio	7.3%	7.1%	
CAR (Capital Adequacy Ratio)	30.9%	32.9%	
Quick-Liquidity Ratio	82.0%	86.7%	

Source: *Monetary Policy and Financial Stability Statement, BNR (2015: 35)*

The OPM study observes that Umurenge SACCOs have, on average, 2000 members, and appear to reach a poorer clientele, where average savings balance per member was US$ 30, which is good for such institutions (at December 2011).

In terms of challenges, Umurenge SACCOs suffer from weak governance that is rooted in a poor sense of cooperative ownership among members, weak internal control systems, and constraints in both institutional systems and staff capacity (Kavugizo 2015). The OPM study noted severe capacity constraints among Umurenge SACCOs, relating to the quality of leadership and governance, institutional systems and processes, and the facilities needed to deliver services. The study also shows that Umurenge SACCOS place too much emphasis on access to credit, rather than savings or other financial services for low-income groups (OPM 2012).

Non-Umerenge SACCOs

There were 89 other SACCOs operating prior to the Umurenge SACCO initiative, now consolidated to 63. These offer both savings and credit and tend to be based in urban and peri-urban locations (OPM 2012). Many draw their membership from single professions and interest groups (eg: teachers, or civil servants).

These SACCOs were found to be larger than the Umurenge SACCOs with an average of around 7,500 members each, and an average savings balance per member of US$ 90 (OPM 2012), although averages can be deceptive, concealing a few large accounts or many small ones. There are a number of unions or networks of SACCOs which often function as a vehicle for channeling funds and on-lending to SACCOs. While they have a stronger cooperative bond as members often come from the same profession, non-Umurenge SACCOs share similar management challenges to those of Umurenge SACCOs.

Strengthening SACCOs

The OPM study emphasised the need to consolidate the sector, thus reducing the burden of BNR supervision, and proposed three key potential strategies noted below:

- *Establishing a cooperative bank – risks:* balancing interests of SACCO member owners and other (private) owners; shift in mission may not serve very low-income market; *benefits* – reduces supervision, could facilitate professionalism.
- *Consolidating and establishing SACCO networks – risks:* temptation to undertake external lending, and balancing need to build networks with need for strong individual SACCOs; *benefits* – potential to deepen financial inclusions, development emerging leadership capacity in Umurenge SACOOs, reduce governance risks and reduce supervision requirements.
- *Establishing bank linkages – risks:* banks may offer external lending, undermining SACCO's savings philosophy, monopoly risks, public perceptions of risk; *benefits* – creates a more integrated financial market, supports learning, develops leadership/ managerial capacity (OPM 2012: vi)

A number of initiatives have now been established to meet the challenges, including: the creation of the *Rwanda Institute of Cooperatives, Entrepreneurship and Microfinance* (RCA) providing training for governing bodies, managers and staff; adoption of a National Financial Education Strategy promoting financial education in schools and public awareness campaigns; introducing computing systems to all SACCOs which will be networked with shared reporting; consolidation of SACCOs at district level, and creation of a cooperative bank (Kavugizo 2015, EIs).

2.10 Challenges in the Microfinance Industry

The Association of Microfinance Institutions in Rwanda (AMIR) notes challenges faced in the microfinance industry in its annual reports (AMIR 2011; 2012; 2013; 2014) as follows:

- *Low capacity to professionally and sustainably manage MFIs:* including limited management and board capacity and lack of resources to recruit and pay qualified staff;
- *Lack of capacity to support MFI product development, diversification and outreach services:* MFIs tend to copy each other's products and services such that there is little differentiation between competitors. The sector lacks market-research and innovation skills;
- *Insufficient MFI refinancing mechanisms:* the Business Development Fund (BDF) was designed to provide refinancing to MFIs and private businesses; several social investors such as Rabo Bank, SMGF and Oiko Credit also provide refinancing services, but these are limited.
- *Limited use of Management Information Systems (MIS):* while most MFIs have an automated basic MIS to track savings and loans, and professionalise accounting systems, smaller Umurenge SACCOs and other cooperatives are not all automated, and still struggle to provide timely and accurate information.
- *Tax on savings:* GoR charges 15% interest on savings earned, which is withheld by MFIs. While this is not a big charge, MFIs find the tax a problem which has a significant impact on deposits and sustainability, as the tax deters savers who find little financial benefit in savings.
- *Unrelated state and donor interventions:* In 2011 AMIR recognised that many MFIs were not fully financially sustainable (AMIR 2011), and that while funds from governments and donors were increasing, MFIs still need solid foundations to avoid management failures and to build on lessons learnt from the 2006 MFI crisis.

- *Limited level of financial literacy:* weak financial literacy means that customers sometimes confuse grants and loans, leading to a poor savings culture. There is also little ownership by local governments, and SACCOs and other MFIs have a poor reputation of low solvency, bad loans, little security for deposits and poor governance.

The press had reported that MFIs are suffering from loan recovery failures causing MFIs to operate in losses (Nyesiga 2012), and that in January 2012, RWF 1.2 billion of loans had not been recovered. A recently formed District Recovery Commission has been formed to enable MFIs to go to court to recover the debt. At the time of reporting, it was noted that 307 cases worth RWF 797 million were upheld and are waiting to be legally enforced while 455 cases amounting to RWF 487 million were in the process of completion.

A further article highlighted criticism among the Kigali mayors that certain MFIs are slow to recover loans (de la Croix Tabaro 2012). This was as a result of poor tracking mechanisms of borrowers who had moved to another place. The main issue was lack of lists of clients whose microfinances were liquidated after the central bank had failed to release them.

2.11 Mobile Money

There are three main mobile operators in Rwanda: MTN; Tigo; and Airtel which was the most recent company to enter the market. In September 2014, the largest provider MTN had 3.7m customers, Tigo had 2.7m, and Airtel had 1.0m, representing a 71.6% penetration rate (Gasore 2014). This number includes significant numbers of poor households (EI).

Mobile money in Rwanda was launched in 2010. All banks now have mobile banking applications and the perception is that this is a growing market. Some 71% of Rwandans own a mobile phone, up from 63% in 2013, according to the RURA (Rwanda Utilities Regulatory Agency) with MTN having about 50% of the market (Gasore 2014).

Of those with a mobile account, about 20% have a mobile money account. People use mobile money in Rwanda to pay bills, TV subscriptions and more recently taxes. Experts reported that the typical profile of a mobile money user in Rwanda is male with some education (EI).

Mobile money operators are licensed by BNR, and are subject to reporting and regulatory requirements, and KYC (Know Your Customer) regulations. Mobile Network Operators (MNOs) are required to maintain an aggregate deposit of individual accounts in a commercial bank. Interest is not paid on individual accounts. Several banks have been integrating mobile money into their core operations, including Banque Populaire du Rwanda (BPR), FINABANK, Rwanda Commercial Bank, Urwego Opportunity Bank and the Bank of Kigali (MFT 2011).

Interoperability is a key issue, both to the transfer of payments across MNOs, ie: from one phone company to another, and payments from MNOs to the banks. Regulation within Rwanda required interoperability to be introduced by JUNE 2013. A report in 2013 suggested that: mobile money is a new market with operating systems evolving rapidly, regulation should be 'light touch', and the quality of the agent network is key to the success of mobile money systems (Argent et al 2013).

2.12 Financial Consumer Protection in Rwanda

Rwanda, like many developing countries, does not have specific regulations on financial consumer protection (CGAP and the World Bank 2010). In 2011, MF Transparency reported that competition amongst MFIs in Rwanda is intense between MFIs and SACCOs, which has resulted in poor credit collection practices and client over- indebtedness, negatively impacting upon consumer rights (MFT 2011). Several initiatives have now been set up to address this challenge.

The *Competition and Consumer Protection Bill* was formulated in 2010, and the bill approved by Parliament in 2011. The Ministry of Trade and Industry now has a Competition and Consumer Protection Unit, which seeks to create awareness amongst both consumers and business owners of consumer principles and rights. However, the policy lacks an explicit mechanism for addressing financial consumer protection. According to the CGAP study, different models are used for consumer protection. Some countries such as Canada have set up independent agencies while others such as Malaysia and Nigeria house the unit within the central bank.

In 2013, the World Bank published the *Rwanda: Diagnostic Review on Consumer Protection and Financial Literacy* (WB 2013), part of a wider World Bank programme. The report noted that the legislation and regulatory framework for consumer protection is at a very early stage of development. Recommendations included:

- *Institutions:* clarify the roles of BNR, RCA (for SACCOs) and consumer protection units; give BNR primary responsibility for supervision of legislation on consumer protection in the financial sector.
- *Legal and regulatory framework:* consider implementing a cohesive financial sector framework that applies to banks, MFIs, SACCOs etc; clarify insolvency law.
- *Transparency and disclosure:* require all fees, charges, penalties rates and commissions to be clearly disclosed; require disclosure of effective interest rate for comparison on the basis of declining balance rates.
- *Business practices:* improve competition by enabling depositors to move accounts and loans to another provider;
- *Dispute resolution:* dispute resolution for all the financial sector should be undertaken by a unit under the national ombudsman.
- *Financial education:* continue and develop financial education (WB 2013).

A Credit Reference Bureau (CRB) is now operating as private company. BNR encourages voluntary participation by supermarkets and others, with the aim of increasing coverage to 23% of the adult population. Between December 2013 and 2014 the bureau had handled 30,622 searches (BNR, 2015: 5). While clearly an important step in addressing over-indebtedness, CRBs are only effective if financial service providers have effective management information systems.

In 2013, AMIR (Association of Microfinance Institutions in Rwanda) adopted a Code of Conduct that established a self-regulatory mechanism for MFIs and their relationship with consumers (AMIR 2013a). The code includes 'client protection principles' that relates to the Smart Campaign's seven principles:

i) *appropriate product design and delivery;*
ii) *prevention of over-indebtedness;*
iii) *transparency;*
iv) *responsible pricing;*
v) *fair and respectful treatment of clients;*
vi) *privacy of client data;*
vii) *mechanisms for complaint resolution* (Smart Campaign 2015).

AMIR conducted a review of implementation of the Code of Conduct in 2014 (Habyalimana 2014) which identified the need for: quick adoption of the financial consumer protection law; promoting wider awareness of consumer protection principles; exploring the potential of setting up a financial ombudsman department in the Ombudsman Office; AMIR to monitor the extent to which members comply with the Code of Conduct.

3. Financial Needs of Micro-entrepreneurs

The findings in this section are based on the survey of micro-enterprises, carried out in three cities in Rwanda, Muhanga, Musanze and Kigali. Micro-enterprises were defined as very small units, usually with three or fewer workers. The focus was on sectors with potential for economic growth and youth employment as Rwanda moves from an agrarian to a modern economy. Sampling was carried out in five main sectors: vending, construction, tourism, manufacturing, and agri-processing, with stratified sampling across sectors to ensure a relatively even balance by sector and gender. A total of 222 extended questionnaires were completed.

One of the striking findings from the research was the relatively high levels of saving and borrowing, with 86% of the survey saving in a bank, SACCO or MFI. Borrowing was also high with 37% borrowing from a bank, SACCO or MFI, and very few reported other sources of borrowing, although people are wary about divulging sources of debt. These are significantly higher levels than found in other countries in this study. Details of the survey results are set out in Appendix 4. Results are presented by area (Kigali, Muhanga, and Musanze), business sector (vending, construction, tourism, manufacturing and agro-processing), and by gender.

3.1 Savings

Micro-entrepreneurs were asked a multiple-choice question about where they saved. Amongst the 222 respondents, 54% used banks, 35% used SACCOs, 15% used MFIs, and 14% used *ikimina* (informal savings groups). Relatively few people saw mobile money, airtime and savings at home as places to save, and relatively few used multiple sources of savings.

Means of saving: Respondents were more likely to use banks in Musanze than Kigali and Muhanga (64% vs. 54% in the other two areas), SACCOs in Kigali than Muhanga (52% vs. 19%), MFIs in Muhanga than Kigali (23% vs. 8%), and *ikimina* in Muhanga than Kigali (23% vs.5%).

In terms of gender, men used banks more than women (60% vs. 47%), as well as SACCOs (36% vs. 35%), and *ikimina* (19% vs. 7%), but women used MFIs more than men (23% vs. 8%). Both men and women made regular savings (71% and 73% respectively).

There were some differences in savings patterns across the different sectors. Those working in vending (55%), and construction (71%) are more likely to save in banks than any other method, but those working in tourism and manufacturing preferred saving in SACCOs. Those working in agro-processing used banks and *ikimina* equally.

Reasons for saving: Reasons for saving were varied – 98% saved for family or medical emergencies, 41% for business purposes, 37% for school fees, and 9% for land/home purposes. These results confirm that even if intended for business purposes micro-credit is often used for ‘smoothing’ cash flow and to cover family emergencies. In Muhanga and Musanze, more people saved for business purposes than for family or medical emergencies, whereas in Kigali, the opposite was the case. Women clearly saved most for family or medical emergencies (64%), whereas men were more evenly spread across saving for business (44%), school fees (39%) and family or medical emergencies (40%). The sentiments of this trader from Muhanga were typical:

> *This job helps me to survive without begging, I can pay school fees for my children, I can pay* mutual de sante *(health insurance) for my family, I can pay rent and I can get the loan and reimburse the bank. The challenge is that we are not getting many clients for second hand clothes, if we don’t have clients while we are supposed to reimburse the bank it is very challenging. In future, I want to expand this business and make it stable and handle it better.* (Male, Muhanga, selling men’s sports clothing, saving/borrowing from a bank and *ikimina*)

A small group of people did not save, of which the majority felt they did not need to save.

3.2 Borrowings

Respondents were asked whether they had taken out a loan within the last two years – 43% said they had.

Means of Borrowing: In response to a multiple-choice question, a slightly greater proportion had borrowed from banks (39%), than from SACCO (29%) or MFIs (25%). Respondents did not report using either mobile money or money lenders, although trade credit, for example, is often under-reported. Those in the vending, construction and agro-processing business used banks the most, but those in tourism and manufacturing preferred SACCOs.

Reasons for borrowing: The reasons for borrowing were for business operation and development (57%) particularly those working in vending (91%) and tourism (71%). Women were more likely than men to borrow for business development (58% vs. 56%) and family emergencies (22% vs. 10%), whereas men borrowed more for school fees (20% v. 12%), land or homes (20% vs. 7%), and business emergencies (5% vs. 0%). Respondents in Muhanga and Kigali mainly borrowed for business reasons. Interviewees in Musanze did not give a satisfactory response to this question.

Reasons for not borrowing were for three main reasons: (i) not needing a loan (29%); (ii) not earning regularly enough to take out/pay back a loan (28%); and (iii) concerns over paying back the loan (25%). Only very few people considered loans were too expensive, or that banks or MFIs could not be trusted.

3.3 Benefits and Risks

Many people found benefits in working in cooperatives, which encouraged them to save, allowed them to borrow, and to develop future plans.

> *I get money even if it is not much but it helps me. In this job we work with many people and helps me to know social affairs. The other thing is that through this cooperative we took many training courses on skills like computers, accountancy and languages. The problem that we find it is only when they are few customers. We plan to get some more free training, and we plan to take a loan in order to buy our own house where we can do our business because my part of life is in this association.* (Female, Kigali, tailor, member of a cooperative, saving in a bank and MFI, borrowing from a bank)

> *The first advantage is that now I am an employed people then with this cooperative I get some money, which helps me and also helps my family. However … we don't get many clients here and no facilities to display our products, and cannot go to see others' work. The other big problem that we have is that many of our members didn't study. What we plan is to have our own gallery and open our own website in order to work with people which are outside the country. Then we also need to improve by producing many products. However, we need also a better place to work.* (Male, Musanze, sculptor, member of cooperative, saving in a bank and SACCO, not borrowing)

The cooperative groups also help particularly vulnerable people.

> *I am an orphan but now I feel well, like in a family, through the cooperative we get much information, and to work as a team helps me survive well. However, there are problems - we make many products but customers are few. My coop is hoping for a loan of RWF 2,500,000 because they need to add some products.* (Female, Kigali, handicrafts, saving in bank and MFI)

I am vulnerable, which has always made feel unconfident and ashamed due to the fact that we have always been marginalised in this society, but after I got professional training for doing pottery in the cooperative, it helped me to feel more valuable… Because of this job, I have been able to network with different people and I was able to visit three countries, Tanzania, Uganda and Burundi. People now respect me for what I do and do not despise me for who I am. We do not have our own machines as a cooperative, we have to rent those, and renting is expensive, also it is not easy to get colours we use, because we have to order these from China and Switzerland, which makes it expensive. I would want to transfer this knowledge I have to my children in case some of them do not manage with school, they will be able to carry on with this. Actually our families has always survived from pottery, I do not mind my children carrying on this but a more modern way. (Female, Muhanga, making and selling handicrafts, cooperative member, saving in a bank and borrowing from an NFI).

However, the micro-entrepreneurs face many vulnerabilities and risks, particularly lack of a secure place to work, and defaults of other people from solidarity loans.

The traffic police and one bank agent came and took everything of mine because I have taken credit and I didn't have money to pay. The lender allows one month without pay, and then they come and take goods. Yes, and sometimes I guarantee someone's debt then when he didn't pay back the money, I was the one to pay it. (Male, Muhanga, saves and borrows from a bank, member of *ikimina*)

One day I was selling my product, but when I needed to go to the toilet I told my friend to be there. Then after in the evening I saw they were some products missing. Another time there was a traffic policeman who came and took everything of mine and I have to begin from zero. (Male, Muhanga, selling watches, phone batteries and covers, and spectacles, saving and borrowing from an *ikimina*)

The main problem is that I don't have a room of working then when it is raining. I have to search where to put my bags… The other problem is that they are many thieves. My plan for the future is to have a big room where I can stock all my products and then I can sell without difficulties, and … then I can make my family having a good life. (Male, Muhanga, street vendor, selling bags from a sheet on the floor, saves with a bank, no borrowing)

As in many other cities in the region, it seems that the city police and urban projects are often causes of job losses for petty traders and other informal economy operators.

3.4 Mobile Money

Of those responding to the survey, 66% of people used mobile money for business reasons, a greater proportion being women (77% vs. 58% of men). Only 10% of people used mobile money to send M-payments, whereas a greater proportion used it to receive M-payments (15%). In all three districts, mobile money was predominantly used for business reasons, across all five sectors. However, there are problems with its operation as one respondent indicated:

I can afford to get money to pay rents, money for food and can also pay school fees for my sisters. Sometimes the network goes down when selling me2u, as we use MTN and Tigo networks and sometimes customers complain that they didn't get their me2u when I had sent it. I want to save money, to pay school fees for my sisters, and to go back and finish my (university) studies. (Female, Muhanga, selling airtime and me2u for MTN and Tigo, saving with mobile money)

4. Conclusions and Recommendations

The Government of Rwanda has placed access to finance at the centre of national policy and put in place many initiatives to support this agenda. From their inception in 2009, the Umurenge SACCOs now reach perhaps 1.5 million people, or around 12% of the Rwandan population. Financial inclusion has increased from 22% in 2008 to 47% in 2012 (AFR 2012). These are impressive achievements. However, a dispersed population, low levels of financial literacy, and overlapping regulatory roles mean that implementation remains an on-going challenge.

4.1 Inclusive Growth: Reaching the Most Vulnerable

Rwanda is urbanising rapidly, with the urban population set to double in the next 15 years. In addition a significant proportion of the population is under 15, and urban micro-enterprises will thus play a key role in providing jobs for young job-seekers and contributing to private sector-led growth.

Government policy of encouraging the growth of small enterprises through the development of cooperatives is interesting. Our survey demonstrated that cooperatives can provide a supportive environment for vulnerable micro-entrepreneurs, but can also serve to dampen business innovation. The VSLA savings model has expanded rapidly in Rwanda, but translation into urban settings is not widespread.

However, both cooperative and individual enterprise should be equally supported in government policy if Rwanda's development goals are to be met. This means promoting financial inclusion as part of a wider package that recognises the role of micro-enterprises and informal economy businesses in contributing to jobs and growth, as one of many challenges that they face.

1] *Financial Inclusion* should be seen as part of a broad *Inclusive Growth* agenda. Access to finance is only one of many factors that inhibit the growth of micro-enterprises and informal economy businesses, and financial inclusion in Rwanda should continue to be seen as one part of a much broader policy environment to support micro-enterprise growth and development.

4.2 Micro-enterprise and Informal Economy Businesses (Demand-Side)

Micro-credit is important but not sufficient to ensure livelihoods' development and economic growth: the principle should be that those who need financial services should have access to affordable and transparent forms of savings, borrowing, insurance and pension services, where the costs and their rights are made clear. Four barriers to financial inclusion of micro-enterprises are identified:

1] Credit should only be used as part of equally weighted interventions – savings, insurance, pensions and credit: The emphasis of provision should be on promoting savings and insurance in order to minimise the need for credit. Micro-enterprises should be offered a full range of services, with the focus on savings and financial literacy rather than credit as the main objective, although there are problems of scale in reaching vulnerable groups.

2] Financial literacy for micro-enterprises should be a priority, tackled at all levels. The vulnerability of many people working in micro-enterprises is a significant problem. Lack of knowledge about financial services is a widespread, including lack of understanding of basic financial concepts (e.g. how charges are calculated and the overall cost of borrowing). Training for this group should be prioritised, building on current good practice from MFIs.

3] Micro-enterprises lack clear information about differences between providers and products. A 'basic facts sheet' covering common information (eg: interest, fees, APR) could help address this problem. Micro-enterprises have limited information on which to compare providers and products, or assess whether the information they are given is biased.

4] Financial products are not well-adapted to the needs of micro-enterprises, and products should accommodate fluctuating incomes, allowing 'lumpy repayments' when income recovers: Many loan mechanisms require regular repayments, but business income is often irregular and unpredictable. Furthermore, although MFIs prefer to lend for business development, in practice much micro-credit is used to 'smooth' consumption spending, e.g. for family emergencies or schools when fixed repayments may be difficult.

5] Savings and loan delivery models, and payment systems should maximise the potential of mobile payments systems: Mobile money is likely to grow fast, and has significant potential to transform customer access to savings, credit and other financial services.

4.3 Solidarity Groups in Urban Areas (Demand Side)

VSLAs share a similar social welfare philosophy with SACCOs and some MFIs and are important in building solidarity among the groups involved and developing a savings culture. There is still limited transfer of the VSLA methodology to urban areas.

1] VSLAs should remain outside the remit of prudential regulation: Rwanda's community savings and loans groups are increasing rapidly, and groups should continue to be encouraged to adopt good practice in accounting and handling cash. Leading NGOs are important in spreading best practice, for example in setting fees and fines so that there is no transfer of resources from the most to the least vulnerable.

2] Solidarity groups should be seen as a stepping stone to enabling members to graduate to larger group loans and individual financial services: Despite their strengths in supporting community support and peer learning, interest rates are relatively high. However, solidarity groups will remain important for community development, but should not be the only financial service to which members have access.

3] SACCOs, MFI or bank linkages will enable successful solidarity groups to access larger loans, and graduate to individual accounts: Strong partnership approaches developed through SACCOs and other linkages will help successful VSLAs scale up micro-enterprise activities by deepening access to finance. The CARE VSLA-plus is a promising model for such linkages.

4] Good practice guidance on successful adaptation of the VSLA model to urban settings in other countries should be disseminated in Rwanda: The VSLA model works well to build community solidarity in rural settings, but in some countries in the region there are now successful urban groups; knowledge on successful urban adaptations should be disseminated.

5] Successful VSLA groups should be encouraged to start satellite groups particularly amongst young people: There is a critical need for young people to develop entrepreneurship skills. VSLAs can provide peer support to share expertise with new satellite groups, for example by providing board members or start-up capital, or supporting youth groups.

6] Mobile money has considerable potential to change the operations of VSLA groups: Groups that use mobile money payments report less time spent in meetings and better transparency in accounting. The danger is that the social solidarity element of groups is weakened.

4.4 Microfinance Providers (Supply Side)

There is considerable innovation amongst MFIs in Rwanda, but the different regulatory regimes for deposit-taking and non-deposit taking institutions creates a two-tier system for both MFIs and their customers.

1] Regulators should develop a standard code of conduct for all financial services institutions (MFIs and SACCOs) (eg: those regulated by the National Bank of Rwanda) building on the current Code of Conduct and seven 'client protection principles' developed by AMIR. The code should avoid over-regulation and could include two elements:

> **i) mandatory requirements for consumer protection and customer information.** All MFIs and SACCOs should adhere to core standards of consumer protection consistent with their mission of poverty reduction and promoting financial inclusion. This should include promoting transparency in pricing and providing clear information on complaints procedures and dispute resolution mechanisms.
>
> **ii) voluntary good practice guidance on promoting financial literacy, customer relations, and on avoidance of over-selling and loan recovery.** Regular financial-literacy and customer-relations training for MFI staff should be encouraged, through the *Rwanda Institute of Cooperatives Entrepreneurship and Microfinance,* and workplace training.

2] Where appropriate, Category 4 MFIs under the Microfinance Law (ie: which do not accept deposits from the public) should be supported in moving to Category 3 (deposit-taking). Category 4 institutions have to raise lending capital from external sources, so their interest rates tend to be higher.

3] Bank, MFI and mobile-money agents carry the same legal responsibility as providers, and should be required to undergo basic training on handling mis-payments, and complaints: The agent model has been successful in extending financial access, but there is some evidence agents' problem solving is limited, particularly mobile-money agents – training is thus important.

4] SACCOs are an important savings mechanism and there is urgent need to improve MIS systems and roll out data-tracking and management to all SACCOs. SACCOs are used by around 1.5 million people in Rwanda, and are supported by a sound legal and regulatory framework, but their management systems are not fully computerised. They appear to be widely used by urban micro-enterprises, which should be better researched.

5] The consolidation of Umurenge SACCOs at district level or through a Cooperative Bank will streamline the current onerous supervision requirements resting with BNR. This agenda is now well under way, but should be prioritised once data systems are harmonised.

6] The role of AMIR (the Association of Micofinance Institutions in Rwanda) should be strengthened by the Government of Rwanda. AMIR has a good membership base, but its potential to promote good practice, and undertake and disseminate research in Rwanda is under-developed.

4.4 Mobile Money Innovations

Mobile money is fast transforming access to finance in Rwanda. The rapid spread of mobile phones provides the best potential for changes in the market. Mobile money is used by businesses to pay bills, but much better information is needed by customers on the charges for deposit and withdrawal, and potential returns.

1] The National Bank of Rwanda and mobile-money providers should ensure transparent charges for mobile-money products. Mobile money is starting to be used for savings, but much better information is needed on the charges for deposit and withdrawal, and potential returns, including savings, credit and insurance. Mobile-money providers should lead a financial education programme about the new products.

2] Mobile-money providers should ensure transparent charges for mobile-money savings, credit and insurance. There is an opportunity to work in advance with MNOs at an early stage in the provision of mobile credit to ensure consumer protection and financial education about the new system, and learn from experience elsewhere in the region (e.g. Kenya).

3] The next FinScope survey should distinguish mobile money from other forms of financial access. FinScope surveys provide a broad-based analysis of access strands – the highest level of financial services that respondents have accessed. However at present, mobile money is classed with SACCOs as 'semi-formal'. It would be helpful to distinguish these in the next survey.

4] More people are now using smart-phones, and a series of mobile phone 'apps' in Kinyarwanda should promote financial education and inclusion. SMS messages can be used to deliver 'key facts' and short financial inclusions messages, and many mobile users now have access to smart phones. The opportunity should be taken to use these as delivery mechanisms for financial education and consumer protection.

5] Mobile money agents should be required to undergo basic training on handling mis-payments, and complaints. There is scope for ensuring good practice in agent operations, which should be part of broader training requirements.

4. 5 Consumer Protection

Many micro-enterprises do not understand the differences between providers, or their potential liabilities in case of default. Although financial literacy is often limited in reach and impact, nevertheless it is important that its reach is extended as far as possible.

1] There is urgent need for extending financial education to give customers information on i) differences between types of providers; their rights and complaints/dispute mechanisms: At present micro-enterprises have limited knowledge about the sector.

2] Transparency and disclosure for all financial products should follow consistent practice across the sector, for example a 'basic facts sheet' showing the effective APR interest rate of loans on a declining balance rate: At present micro-enterprises do not understand the basis of charges for accounts and loans, knowing only the monthly repayments required. Disclosure should include details of fees, charges, penalties, rates and commissions, and effective interests for comparison.

3] The seven 'client protection principles' promoted by the SMART campaign and adopted by AMIR should be applied across the sector. MFIs and SACCOs should be required to make regular returns on good practice in addressing the seven client protection principles.

4] AMIR should commission regular workshops bringing together regulators, microfinance providers and small-business representative to debate policy and innovation. Industry associations have an important role to play in promoting codes of conduct, increasing consumer awareness and complementing ongoing efforts on consumer financial education. AMIR's web-based information could help microfinance customers access information, and provide a web-based 'question-and-answer' service, eg: through a smart-phone 'app'. Such changes will facilitate compliance and supervision and create better-informed consumers, financial institutions and regulators who understand the importance of consumer trust for sustained financial access.

Appendices

APPENDIX 1: Expert Interviews

AFR – Access to Finance Rwanda
AMIR – Association of Microfinance Institutions in Rwanda
BNR (NBR) – National Bank of Rwanda
CARE Rwanda
Coodjad, *Coopérative de la Jeunesse pour l'auto Emploi et le Développement*
DFID, Access to Finance Programme
Duterimbere MFI Ltd
Kigali City Council
Microfinance Inkingi SA
MINICOM – Ministry of Trade & Industry
MTN telecommunications
Rabobank Nederland, Rabobank Foundation
Rwanda Cooperative Agency Umwalimu SACCO
World Vision Rwanda
World Council of Credit Unions, Rwanda
UN CDF – UN Capital Fund for Development
UNDP – UN Development Programme
UN-Habitat

APPENDIX 2: Survey Data

Saving (Multiple Choice Question)

	Bank	%	SACCO	%	MFI	%	MobileMoney	%	Airtime	%	Ikimina	%	Home	%	Friends	%	Boss	%	Other	%	Missing	Total
Kigali	51	54	49	52	8	8	5	5	0	0	2	5	1	1	0	0	0	0	3	3	4	99
Muhanga	54	54	19	19	23	23	4	4	1	1	23	23	3	3	0	0	0	0	1	1	12	112
Musanze	7	64	5	46	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11
Total	**112**	**54**	**73**	**35**	**31**	**15**	**9**	**4**	**1**	**1**	**28**	**14**	**4**	**2**	**0**	**0**	**0**	**0**	**4**	**2**	**16**	**222**

Regular Saving

	Yes	%	No	%	Missing	Total
Kigali	72	75	24	25	3	96
Muhanga	69	70	30	30	13	99
Musanze	7	64	4	36	0	11
Total	**148**	**72**	**58**	**28**	**16**	**206**

Saving Motivation (Multiple Choice Question)

	Business	%	Business Emergencies	%	School Fees	%	Family/Medical Emergencies	%	Land/House	%	Other	%	Missing	Total
Kigali	17	20	2	2	37	43	50	58	13	15	21	24	13	99
Muhanga	53	56	1	1	31	33	44	47	14	15	12	13	18	112
Musanze	8	73	0	0	2	18	4	36	2	18	1	9	0	11
Total	**78**	**41**	**3**	**2**	**70**	**37**	**98**	**51**	**29**	**15**	**34**	**18**	**31**	**222**

Reasons for not Saving

	Don't need savings	%	Don't have money to save	%	Don't earn regularly enough	%	Don't trust in Banks	%	Too complicated	%	Missing	Total
Kigali	7	100	0	0	0	0	0	0	0	0	92	7
Muhanga	11	58	4	21	1	5	2	11	1	5	93	19
Musanze	0	0	0	0	0	0	0	0	0	0	11	0
Total	**18**	**69**	**4**	**15**	**1**	**4**	**2**	**8**	**1**	**4**	**196**	**26**

Saving Problems

	Yes	%	No	%	Missing	Total
Kigali	4	5	75	95	20	79
Muhanga	3	3	96	97	13	99
Musanze	0	0	11	100	0	11
Total	**7**	**4**	**182**	**96**	**33**	**189**

Borrowing

Loan (last 24 months)

	Yes	%	No	%	Missing	Total
Kigali	39	42	55	58	5	94
Muhanga	50	48	55	52	7	105
Musanze	0	0	7	100	4	7
Total	**89**	**43**	**117**	**57**	**16**	**206**

Borrowing

	Bank	%	SACCO	%	MFI	%	Mobile- Money	%	Ikimina	%	Moneylender	%	Boss/Supplier	%	Other	%	Missing	Total
Kigali	12	34	19	54	2	6	0	0	1	3	0	0	0	0	1	3	64	35
Muhanga	22	42	6	12	20	39	0	0	1	2	0	0	0	0	3	6	60	52
Musanze	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11	0
Total	**34**	**39**	**25**	**29**	**22**	**25**	**0**	**0**	**2**	**2**	**0**	**0**	**0**	**0**	**4**	**5**	**135**	**87**

Borrowing Motivation (Multiple Choice Question)

	Business	%	Business Emergencies	%	School Fees	%	Family/Medical Emergencies	%	Land/House	%	Other	%	Missing	Total
Kigali	8	25	0	0	9	28	10	31	5	16	12	38	67	99
Muhanga	39	78	2	4	4	8	3	6	6	12	8	16	62	112
Musanze	0	0	0	0	0	0	0	0	0	0	0	0	11	11
Total	**47**	**57**	**2**	**2**	**8**	**16**	**13**	**16**	**11**	**13**	**20**	**24**	**140**	**222**

Reasons for not Borrowing (Multiple Choice Question)

	Don't need a loan	%	Don't earn regularly enough	%	Worried about not paying back debt	%	Don't trust banks or MFIs	%	Too expensive	%	Other	%	Missing	Total
Kigali	10	27	10	27	11	30	0	0	2	5	6	16	62	99
Muhanga	10	28	12	34	7	20	0	0	1	3	10	29	77	112
Musanze	4	36	1	9	3	27	2	18	1	9	0	0	0	11
Total	**24**	**29**	**23**	**28**	**21**	**25**	**2**	**2**	**4**	**5**	**16**	**19**	**139**	**222**

Mobile Use (Multiple Choice Question)

	Business	%	Send M-Payments	%	Receive M-Payments	%	Missing	Total
Kigali	48	58	9	11	12	15	16	99
Muhanga	76	75	10	10	17	17	11	112
Musanze	**3**	**38**	**0**	**0**	**0**	**0**	**3**	11
Total	**127**	**66**	**19**	**10**	**29**	**15**	**30**	**222**

APPENDIX 3. References

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