Graduate School of Development Studies

BANKING THE UNBANKABLES: MICROFINANCE AND POVERTY REDUCTION IN RWANDA

A case study of Urwego Opportunity Microfinance Bank

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DEDICATION

I dedicate this thesis to my Almighty LORD who always has Good plans for me; 'For I know the plans that I have for you,' declares the LORD, 'plans for welfare and not for calamity to give you a future and a hope' Jeremiah 29:11

Again to my beloved mother Joy Nyakaitana and my late father Perez Nyakaitana. It's for your love, sacrifices and efforts that I have made it to this level.

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List of Acronyms

CB	Community Bank
CFSI	Centre for the Study of Financial Innovation
CGAP	Consultative Group to Assist the Poor
EDPRS	Economic Development and Poverty Reduction Strategy
FGDs	Focus Group Discussions
GDP	Gross Domestic Product
IGAs	Income Generating Activities
MDGs	Millennium Development Goals
MFI	Microfinance Institution/s
MIS	Management Information System
NGOs	Non Governmental Organisations
PRSP	Poverty Reduction Strategy Paper
RWF	Rwandan Franc
SG	Solidarity Group
UNDP	United Nations Development Programme
UOMB	Urwego Opportunity Microfinance Bank
US$	United states Dollar

Abstract

Since the 1990s, poverty reduction has taken priority at both national and international development levels. Within this framework, various initiatives have been taken. Microfinance has caught the attention of many aid donors, NGOs and Governments as an effective tool for poverty reduction. The successful use of microfinance is considered as victory for the poor to escape the poverty traps. In Rwandan context, this same initiative and hope has been emphasised in the Country's Poverty Reduction strategy papers. Therefore this paper is an attempt to analyse the role of Microfinance in poverty reduction in Rwandan context. The study takes a case study of Urwego Opportunity Microfinance Bank which is one of largest microfinance institutions in terms of scale and geographical coverage. To achieve the desired objectives of the study 27 clients of the MFI selected from one rural and one urban branch were interviewed through individual and focus group discussions and the study was highly qualitative.

There has been found that Microfinance outreach in scale is extensive and impacted positively on the poor but only the poor close to the poverty line could have been reached through MFI. Also rural- urban differences in impact have been noted which suggests differences in poverty levels, opportunities and Microfinance loan products appropriateness between the two.

Keywords

[Poverty Reduction, Microfinance, Outreach, Impact, Exclusion]

Chapter One
Introduction

'Since the concept was born in Bangladesh almost three decades ago, microfinance has proved its value, in many countries, as a weapon against poverty and hunger. It really can change peoples lives for the better, especially the lives of those who need it most" UN secretary General Kofi A. Annan (Latifee, 2006)

Microfinance is regarded as a powerful tool in combating poverty. The optimism over the role and the movement of micro finance as a poverty reduction intervention is increasingly becoming stronger evidenced by the micro credit summit campaign in 1997 to halve poor people, in 2005-1 billion people who subsist on less than $1 a day (Latifee, 2006) and open access for 100 millions of the poorest families by 2015 for self employment and the declaration of the year 2005 as the international micro credit year by the United Nations.

In the same manner CGAP[1] emphasises that access to financial services can help poor people take control of their lives. It stresses that financial services can put power into the hands of poor households, allowing them to progress from hand-mouth survival to planning for the future, acquiring physical and financial assets, and investing in better nutrition, improved living conditions, and children health and education (CGAP, 2006)

This research paper deals with the theme of microfinance and poverty reduction. It analyses the role of microfinance in poverty reduction in Rwanda taking a case study of Urwego Opportunity Microfinance Bank. The paper examines whether the poor have been included in and or excluded from microfinance, the kind and nature of products provided, outreach, how and in what ways microfinance has helped the poor to exit from the poverty traps, and the challenges met by microfinance programme in reaching the poor.

[1] CGAP is a global resource centre for microfinance standards, operational tools, training, and advisory services. Its members-including bi-and multilateral development agencies and private funders of microfinance programs-are committed to building more inclusive financial systems for the poor (CGPA,2006)

1.1 Background

Rwanda is a small (26,300 square kilometres) land locked country in Central Africa, with a population of slightly above 8.5 million (estimated for 2006).it has a very high population density of 328 inhabitants per square kilometre and is one of the poorest countries in Africa with Human development Index of 0.450 (ranking 159 out of 177 countries),and a GDP/capita at purchasing power parity of $1,300 (estimated for 2005).The proportion of the population identified as poor is 56.9 Percent (estimate for 2006); population below $2 per day (2003) is 83.7percent (Jan Maes,consultant, 2007).

Although the country has made significant progress from the devastated nation that emerged from the 1994 genocide, it still remains a severely under-developed country with around 56.9% of the population living under the poverty line[2] (Republic of Rwanda, 2007). According to the National Economic Development and Poverty Reduction Strategy (EDPRS), Inequality, as measured by the Gini coefficient has risen from an already large 0.47 in 2001 to 0.51 in 2006 and poverty remains disproportionately a rural phenomenon (Republic of Rwanda, 2007).

In the fight against poverty and increasing inequality, since 2000, the Rwandan government has embarked on poverty reduction strategies. Current poverty reduction strategy paper emphasises that poverty reduction could not be achieved without access to financial services by the poor.

To this effect, the government places much emphasis on microfinance as one of the tools to poverty reduction. It is believed that it would help to generate employment and to diversify sources of income, thereby contributing to the improvement of the Rwandan economy and the sustainable reduction of poverty (ibid)

The National microfinance policy emphasizes that when the right instruments are used in an appropriate legal context, microfinance can build the capacity of the poor population to create employment and generate wealth in a sustainable manner (Republic of Rwanda, 2007). The Government also aims to create an enabling environment for sustainable MFIs so that they will be capable of fully playing their role as partners in delivering development objectives (ibid). This is to be achieved through financial and non financial services extended to rural and urban, economically active, poor and low income people

Although microfinance is young in Rwanda (became prominent just after 1994), the sector has been growing very fast in the last decade. According to the sector assessment done in 2005, close to US 100 million was mobilised in the sector and $85 was extended to over 600,000 MFI clients as credit. Despite a relatively high penetration rate compared to other African countries only 21 percent of the active population has access to financial services (Enterprising solutions Global, LLC, 2005). In the same vain, Geographical coverage of MFIs is unequal with more concentration in urban areas and some trade centres. However, the government recognises this imbalance and is very much concerned with reaching more poor people with microfinance. The National microfinance policy which came out recently (2007) emphasises that MFIs should be available to all sections of the community including the poorest of the poor (Republic of Rwanda, 2006)

1.2 Problem Statement

'*The key to ending extreme poverty is to enable the poorest of the poor to get their foot on the ladder to development. The ladder of development hovers overhead, and the poorest of the poor are stuck beneath it. They lack the minimum amount of capital necessary to get a foothold, and therefore need a boost up to the first rung'* Jeffrey Sachs quoted on http://www.betterworld.net/quotes/microcredit-quotes.

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[2] Poverty line represents the cost of an adult's basic needs: enough food to provide 2500 calories and some basic non-food items-Republic of Rwanda (2007) Millennium Development goals: Towards sustainable social and economic growth,

Growing concerns about poverty stand out in political agendas all over the world, as the stubbornness of poverty even in the richest nations is being met with increasing impatience (Kimenyi et al, 1998). World Health Organization (2006) points out that after a decade of rapid economic growth; Rwanda is in fact still one of the poorest countries in Africa, with the majority of people living below the poverty line (Bigsten and Isksson 2008). Rates of poverty reduction since 2000 have been modest and are not fast enough to meet either the targets set in Vision 2020 or the MDGs (Republic of Rwanda, 2007).Its said that the total number of poor people has currently increased and that most of these (Over 90% of poor people) live in rural areas (ibid)

The Rwandan government through its poverty reduction papers emphasises the role that microfinance can play in poverty reduction. Microfinance is seen as an important instrument in the implementation of the Government programme to reduce the number of the people below the poverty line from 60% in 2000 to 30% in 2015 (Republic of Rwanda,2007). As pointed out by the Enterprising Solutions Global Consulting, LLC (2005), the Rwandan government has become very interested in micro-finance and emphasises that a strong microfinance sector is crucial to meet their Poverty Reduction Strategy Programmes (PRSP) development goals. It's argued that microfinance can build the capacity of the poor population to create employment and generate wealth in a sustainable manner.

In this regard, the number of microfinance institutions has grown at a fast pace in the last few years. According to National Bank of Rwanda, in 2005, there were close to 230 MFIs that had been approved by the National Bank of Rwanda to legally operate in the country http://www.bnr.rw. The figure is said to have increased to beyond this by 2007. This new wave of micro-finances has not been a matter of microfinance practitioners' alone. The business communities, civil societies, philanthropists and others have increasingly taken interest in it.

Despite that very few studies could have been done on microfinance and poverty reduction in Rwanda, literature and researches from else where indicate inconclusive results on the effectiveness of microfinance as a poverty reduction tool. Momoh (2005) points out that despite the fact that many developing countries, such as Bangladesh in Asia (The Gramean Bank) and Ghana in Africa, to name but two, have scored relative successes in using microfinance as an instrument for alleviating poverty, it has not been so for many other developing countries especially in Africa and some Asian countries. Rather than improve the conditions of the poor, most of the microfinance programmes operated in these countries have left the so-called beneficiaries in debts.

Precisely, microfinance Institutions (MFIs) have been seen by aid practitioners and governments as a manifestly effective means of improving the position of the poor. However, several studies have raised doubts about the effectiveness of the MFIs in reaching the 'core poor'. As Manohar stresses, since much of the impetus behind this large and increasing support for microfinance hinges on the assumption that its economic and social impacts are significant, it needs to be examined more closely (Manohar, 2000). Zeller and Meyer (2002) in the same view stress that MFI operations have far surpassed the research capacity to analyse them and that excitement about the use of microfinance for poverty alleviation is not backed up with sound facts derived from rigorous research. This insufficient current state of knowledge problematises the confident allocation of public resources to microfinance development. This study is therefore intended to examine the role of microfinance in poverty reduction in the Rwandan context.

The research takes a case study of Urwego Opportunity Microfinance Bank which is one of the poverty reduction oriented microfinance Institutions with wide outreach in Rwanda.

The main objective of the study is to examine the effectiveness of Microfinance programme in reaching the poor and its contribution to poverty reduction and to identify the constraints that it may be facing in its efforts to reach the poor.

1.3 Main Research Question

Does microfinance help to reduce poverty in Rwanda?

Specific questions

a. How is the program targeting the poor/who are the poor that are included in the microfinance programme?

b. What is the kind and nature of products and services provided by the micro-finance programme to the poor?

c. What have been the achievements in terms of outreach?

d. What is the impact of the program on the poor to exit from and to prevent entry into the poverty traps?

e. What are the constraints faced by the MFI in the delivery of microfinance services to the poor

1.4 Justification/Relevance

Rwanda has experienced a remarkable recovery since the 1994 genocide that devastated the country's human and physical capital, as well as its social and institutional fabric. However, as pointed out in the EDPRS, these growth rates are deceptive in that they hide large and growing inequalities between social classes, geographic regions and gender (Republic of Rwanda, 2007).These disparities cut across all sectors and undermine Rwanda's progress towards the MDGs in all areas from health to education and even poverty reduction (ibid).

Rwanda's recent growth has largely bypassed the poor, leading to a concentration of wealth at the top of the income distribution, and an increase in the country's Gini coefficient from 0.47 to 0.51 from 2001 to 2006. As a result, the government has embarked on poverty reduction strategies with an increasing emphasis on microfinance as an important instrument. This is very evident in the Poverty reduction papers.

In the same vein, the National microfinance policy emphasises that Microfinance services should assist in the empowerment of women and should be available to all sections of the community, particularly to the poorest and most vulnerable members of society. This shows the government's concern for need to further reach more of the poor people with microfinance. This study tries to establish how microfinance contributes to poverty reduction in Rwanda. The study findings provide information valuable for the government of Rwanda and the development stakeholders in the use of microfinance as a poverty reduction tool. The study results also contribute to the academic literature on the links between microfinance and poverty reduction.

1.5 Research methodology

1.5.1 The study methods and Sources of Data

The study was largely in-depth and qualitative in nature though some quantitative methods were used alongside descriptive and explanatory analyses, where appropriate. A few quantitative elements like graphs and charts have been used to give more meaning to data analysis and interpretation.

1.5.2 Sample selection

a) **Purposive sampling**

The study employed purposive sampling method. Individuals presumed to have enough information were contacted and interviewed for the study. For the purpose of this research; the officials of Urwego were purposively selected and interviewed. These included One (1) Associate Director for Kigali, One (1) Marketing and research department Head, One (1) MIS department Head, One (1) coordinator of Gahini sub office and 2 loan officers of Gahini and Nyamirambo respectively

b) Simple Random sampling

Simple random sampling was used to select the MFI clients to be studied.

A total of twenty seven (27) MFI clients were randomly selected and interviewed. Fifteen (15) were taken from Gahini sub office (rural branch) and Twelve (12) from Nyamirambo in Kigali city. The two regions Nyamirambo and Gahini were randomly selected based on the researcher's convenience. They were aimed to provide insights in the operations of microfinance in the urban and rural settings but don't mean that the findings are necessarily generalisable.

Five (5) drop out clients were included and interviewed in this study to triangulate the data on the impact of microfinance**.**

1.5.3 Classification and sources of data

The tradition classification of data for an empirical study like this was employed. Both primary and secondary data sources were used for data collection.

Secondary Data Sources

Secondary data sources are the foundation for which the theoretical and conceptual framework of the research is built. Relevant literature from existing empirical studies and reports from the ISS library, websites, Government of Rwanda (relevant ministries) were contacted for reports, papers on microfinance, poverty reduction strategies in Rwanda, and Urwego Opportunity Microfinance Bank was visited for reports on microfinance products, services and provision.

Primary data sources

First hand data, in simple terms, forms the bedrock of explanations, inferences, comparisons and recommendations for this research. Much emphasis was placed on collection of accurate and reliable data so as to come up with objective evaluations and to make informed conclusions and judgments. In the light of the above, the following research techniques were used.

Interviewing key informants

Key informants interviewed included:

Urwego officials: Regional coordinator of Urwego for Kigali city, the Head of Research and Marketing Department, Head of MIS department, Head of Urwego sub office, Gahini and two loan officers of Nyamirambo and Gahini respectively.

These interviews were in-depth and open ended so as to be able to solicit independent and objective information as possible. The key questions largely rotated on the first three sub questions of this research paper. That is; target group of the microfinance programme, the kind of products and services provided and outreach aspect.

MFI clients: The Clients of Urwego were interviewed especially to provide answers to the fourth question of the paper, which was to analyze the impact of microfinance on the poor but somehow also interviewed on other sub questions to buttress and or triangulate the information provided by the MFI officials. These interviews were held with 27 MFI clients and five drop out clients.

Focus Group Discussion

Two FGDs were held with the clients of UOMB. One focus group held in Kigali city specifically Nyamirambo region which is one of the areas served by Urwego. This comprised 12 participants. The second focus group which had 14 participants took place in Gahini which is a rural area in the Eastern province of Rwanda. The focus group intended to examine how clients get into the microfinance programmes, the kind of loans products, and impact on clients and whether there are rural-urban differences. They were also meant to triangulate and or compare clients' responses to those provided by MFI officials to buttress the analysis.

Personal Participative Observation

The researcher's involvement and interaction with MFI clients helped largely to critically make the analysis of data collected from interviews and by other means. Microfinance projects were largely the target of such observation

1.6 Scope and limitations of the study

The scope of the study is limited to the role of microfinance in poverty reduction with respect to Urwego Opportunity Microfinance Bank and the problems encountered in reaching the poor. Particular aspects of the study were the target group, nature of products and services, impact on clients and the challenges in reaching the poor.

By Geographical coverage, the study covered; Urwego main office in Kigali, one Urwego Sub Branch in Kigali city (Nyamirambo) and one rural sub branch (Gahini)

1.6.1 Choice of Case Study

Urwego Opportunity Microfinance Bank was chosen for this study because of the following;

- Geographically, its coverage has been expanding and has gained prominence over the past years as one of the best MFIs in the country. In 2004, It was named by the UN as best MFI in Rwanda with a broad and deep outreach and significant on poor peoples' lives
- Urwego Opportunity bank is relevant because of its specific mission as to alleviate poverty. This becomes quite relevant for this study especially in an understanding of how the poor relate to microfinance
- Urwego Long time working since 1997; makes it one the oldest MFI in Rwanda, the researcher assumed it to have a good track of records that would avail information to the study.

1.6.2 Study limitations

Microfinance in Rwanda is new and there is still scanty literature about the subject matter. No major studies have been done linking microfinance to poverty reduction. To address this, the researcher borrows quite often from other countries experience and tries to compare to the Rwandan context.

Just like Sinha and Matin (1998) states it is notoriously difficult to measure the impact of MF program on poverty because money is fungible and difficult to isolate credit impact, while the definition of poverty is a complex issue with various dimensions, so how it is measured and who constitute the poor 'are fiercely contested issues'. Therefore the study focuses on some accessed effects of MF in poverty reduction. Only impact on clients incomes, health, education of children, coping with vulnerabilities and empowerment have been captured in this study.

Making appointments with the respondents proved time consuming and took most of the researcher's time. To overcome this, several appointments had to be made which prolonged the time of data collection than earlier planned.

Given that the data collection for this study was supposed to be collected within one month of July coupled with un respected appointments on part of interviewees, the sample size was very limited for both the regions to be studied and clients to be interviewed. This has negative implications in using the study findings for generalisation purposes. However, from experience; the researcher notices and expects little differences both across MFIs and regions in Rwanda.

1.7 Organisation of the Paper

The paper is organised as follows:

Chapter one has already given out the introduction of the paper, relevance and the justification of the study, research methods and sources of information, choice of study and limitation and scope of study.

Chapter two discusses the concepts that keep coming in the study, Theoretical links between microfinance and poverty reduction and the analytical framework that was used in analysing the study findings.

Chapter three provides an overview of poverty situation in Rwanda, Microfinance sector and its position in Poverty Reduction Programmes in Rwanda and Urwego Opportunity Microfinance Bank case study

Chapter four presents the discussion of findings and analysis in line with the research questions. That is: Who is targeted under the microfinance programme, what is the nature of products and services? What is the outreach? What has been the impact and finally the challenges faced by microfinance programme in reaching the poor.

Chapter five provides major research findings, conclusions and some policy highlights.

Chapter Two
Literature Review

This chapter discusses the concepts that repeatedly come up in this study. This is followed by the Theoretical links between poverty reduction and microfinance and the analytical framework that helped to analyse the role of microfinance in poverty reduction

2.1 Defining the Concepts

2.1.1 Who are the poor?

During the subsidised agricultural credit era (1950s to 1970s), the poor were seen as small or marginal farmers, usually male whose poverty could be overcome by credit induced increases in productivity. From 1980s to 1995 they were seen as mostly female micro entrepreneurs with no assets to pledge. Recently, they have become diverse vulnerable households with complex livelihoods and varied needs (Malcolm, 2003).Similarly, Kimenyi et al citing Brody et al (2005) define the poor as a heterogeneous group with diverse livelihood needs and potential that change overtime due to lifecycle, new opportunities and external shocks. Financial institutions of course cannot serve all the poor. Destitute, food deficit people at lowest levels of the poor are often not yet bankable even by standards of institutions that provide microfinance (Kimenyi et al, 1998)

Montgomery and Weiss (2005) points out that in terms of understanding poverty a simple distinction can be drawn within 'the poor'. The long-term or 'chronic poor' and those who temporarily fall into poverty as a result of adverse shocks ('transitory poor').Within the chronic poor, one could further distinguish those who are either so physically or socially disadvantaged that without welfare support they will always remain in poverty (the 'destitute') and the larger group who are poor because they lack assets and opportunities. Furthermore, within the non-destitute category, one may distinguish by the depth of poverty (that is how far households are below the poverty line) with those significantly below it representing the 'core poor'. In principle, microfinance relate to the chronic (non-destitute) poor and to the transitory poor. This paper adopts this categorisation in analysing which poor people have been included in the Microfinance programme.

2.1.2 Poverty Reduction

Simanowitz et al (2002) cited by Nalunkuuma (2006) argues that poverty reduction is a process of increasing income and economic stability, which will lead to improved fulfilment of basic needs and services and developing a range of assets that will reduce household vulnerability to physical, social and economic shock. Johnson and Rogaly (1997) emphasise that poverty can also be understood as vulnerability to downward fluctuations in income. Vulnerability can be heightened by the lack of saleable or pawnable assets and debt obligations. Interventions which reduce such vulnerability and protect livelihoods also reduce poverty (ibid). This paper captures the effects of microfinance on income, vulnerabilities, empowerment, health and education of the clients' children.

2.1.3 Microfinance/micro-credit

Maanen (2004) states that microfinance, is about banking the un-bankables, bringing credit, savings and other essential financial services within the reach of tens-or rather hundreds of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral. Microfinance can embrace a range of financial services that seek to meet the needs of poor people, both protecting them from fluctuating incomes and other shocks and helping to promote their incomes and livelihoods (Rogaly et al 1999) cited by Fisher and Sriram. (2002) Thus, MFIs have been seen as instruments for poverty reduction.

Micro credit refers to small loans made by MFIs to the poor to pursue self employment and start small businesses. Microcredit is seen as a major tool in reducing poverty and plays a facilitating role in the process of economic development: therefore it should be provided to meet the existing needs of the poor (Hulme et al, 1996) cited by Nalunkuma (2006).Micro credit is generally considered to be an effective tool for reaching the poor and stimulating the transformation of the vicious circle of poverty into a virtuous cycle of economic development (Lont and Hospes, 2004)

But in contrast with the prevailing idea, based on a wide range of literature on micro credit, Hulme and Mosley (1996) indicate that credit plays a facilitating and not a leading role in the process of economic development.

2.1.4 Microfinance Institutions (MFIs)

Microfinance Institutions refer to financial institutions which provide financial services to the poor who are typically excluded from the formal banking system for lack of collateral (Murdoch 2000). Lack of access to credit is readily understandable in terms of the absence of collateral that the poor can offer conventional financial institutions coupled with the various complexities and high costs involved in dealing with large numbers of small, often illiterate borrowers (Montgomery and Weiss 2005).The poor thus rely on money from money lenders at high interest rates or friends and family whose supply is limited. MFIs attempt to overcome these barriers through innovative measures such as group lending and regular savings schemes.

2.1.5 Saving Mobilisation

During the 1990s savings had risen to top of the micro-finance community's agenda. Previously, MFIs regarded savings as being a less important service than credit therefore in recent studies the savings possibility is called 'the forgotten half of micro-finance". Typically collateral systems or compulsory savings were implemented, meaning savings were extracted from clients in order to provide security for MFI. These programme designs were based on the prevalent and powerful assumption that the poor cannot save (Wright 2000) cited by Andreas and Sascha (2004) .The experience has shown however that there is high demand for saving facilities, often even higher than the credit. Savings can play a highly crucial role in poor household strategies. Particularly for the poorest of the poor safe saving deposits can be a great help than even micro credit because profitable use of the loans requires potentials and working capabilities which the poorest people cannot guarantee in many cases. Unsure and irregular income plus high and unexpected expected expenses from time to time build a very unstable financial foundation and can threaten the existence of vulnerable households (Andreas and Sascha 2004). They continue to cite Robinson (2001) that saving serves four main purposes for the poor: Firstly, saving as insurance against emergency situation like old age, loss of income and un expected investment opportunities. Secondly, savings as stock to equalize irregular income, for example farmers whose incomes fluctuates with seasonal cycles, thirdly, saving for social and religious obligations like weddings, village functions etc and fourthly, savings for future long term investment (ibid).This is an indication that the poor need and use saving services.

2.1.6 Exclusion

Exclusion is a situation in which the poor are actively denied the opportunity to benefit from microfinance programmes (Daley, 2002).It takes many forms; formal exclusion by MFIs. This is where MFI may decide to provide services to a specific category of the population (ibid).In the same way QoriniIwan (2005) points out that exclusion means disintegration and fragmentation of poor people from microfinance institution because of inadequate or inappropriate services and products offered to meet the needs of the very poor clients they are trying to serve leading to marginalisation that lead to economic deprivation. This implies that MFIs should provide products and services that are tailored to the credit needs of the poor so as justify their professed role in poverty reduction. This concept for this particular study helps to understand how MFI has designed the products and services in such way that the poor are not excluded from the programmes.

2.1.7 Inclusion

The concept of inclusion in this case occurs when a person's rights to gain access to services is respected and guaranteed. Inclusion therefore means enabling all members of society to benefit from microcredit and microfinance, including the very poorest (ibid).This however, requires that purposeful targeting of the poor be done.

2.1.8 Targeting

This is a method of identifying a certain section of the population or area to benefit from the services offered. The idea of targeting came in the 1970s.The reason behind it was that economic growth benefited the developed areas and well-do people in many of the developing countries. The poor people never enjoyed any benefits accruing from economic growth. As a result a strategy of targeting the poor basing on their assets, social groups and incomes emerged. This was based on the assumption that the poor areas and the poor will also enjoy the benefits of economic growth. However, this never worked successfully as it was hard to identify the poor, the poor more so lacked information concerning the programmes that were targeting them and where they were aware they lacked the necessary requirements needed to be members (Hirway, 2003).For the purpose of this study, this concept is applied to analyse how the poor have been targeted and included in microfinance programme

2.1.9 Outreach

According to Vega (1998) as cited by Qorinilwan (2005) outreach is the number of people reached by a given project. To scale up programmes to reach a large number of clients with small amount of resources has proved an elusive target of many micro credit schemes because of financial and other constraints. Also, Qorinilwan citing Rogaly (1998) notes that an emphasis on the scale is not always having positive impact because to some extent this effort can be counter-productive to the aim of creating sustainable financial institutions for the poor. But on the other hand without spread access by the poor, the claim of microfinance as solution to mass poverty is weakened (ibid)

For the purpose of this study, Outreach refers to the scale, geographical outreach, depth of outreach, quality and breadth, the terms that I explain in my analytical framework (See Fig.1)

2.2 Theoretical links between Microfinance and Poverty Reduction/Analytical Framework

This section is a presentation of theoretical debates about microfinance and poverty reduction and an illustrative analytical framework that is relevant for understanding this study.

2.2.1 Poverty Reduction and Microfinance

The poor and poverty reduction has become the object of unparalleled concentration now days both at national and international levels (www.countercurrents.org). As one of the MDGs, elimination of poverty has become a key issue for all those interested in development of the developing countries (Nalunkuuma, 2006), with microfinance as one of the predominant methodologies for making finance accessible to the poor especially among the donor community. Many donor agencies and governments in developing countries are now funding a growing number of microfinance organisations (Lont and Hospes 2004).

Microfinance is considered to be a solution for overcoming poverty. Lack of savings and capital make it difficult for many poor people who want jobs in the farm and non-farm sectors to become self employed and to undertake productive employment-generating activities. Providing credit seems to be a way to generate self employment opportunities for the poor. But because the poor lack physical collateral, they have almost no access to institutional credit. At the same time, informal lenders in many developing countries often charge high interest rates, inhibiting poor households from investing in productive income-increasing activities (Khandker, 1998).

According to Guerin and Palier (2005), the primary objective of microfinance is the provision of financial aid on a small scale to those who are on the fringes of society, too overwhelmed by the formal restrictions and procedures of the organised sector, too vulnerable to help themselves and left out of the mainstream. Microfinance provided to the vulnerable has to be synonymous with empowerment of the beneficiary groups in order to sustain their income flow and make them economically independent (ibid)

Microfinance institutions are therefore intended to provide reliable and affordable financial services to the poor by providing cheap credit with minimum requirements for example they demand for securities which are affordable by the poor clients. These schemes also cut on the bureaucratic tendencies which make it easier for the poor people to access micro credit. It is argued these microfinance institutions (MFIs) are in position to enhance the ability of the poor to move out of poverty as well as to prevent those above the poverty line from sliding into poverty (QoriniIwan, 2005).

Montgomery and Weiss points out that the case for microfinance as a mechanism for poverty reduction is simple. If access to credit is improved, it is argued, the poor can finance productive activities that will allow income growth, provided there are no other binding constraints (Montgomery and Weiss, 2005).This is a route out of poverty for the non-destitute chronic poor. For the transitory poor who are vulnerable to fluctuations in income that bring them close to or below the poverty line, microfinance provides the possibility of credit at times of need and in some schemes the opportunity of regular savings by a household itself that can be drawn on. The avoidance of sharp declines in family expenditures by drawing on such credit or savings allows 'consumption smoothing' (ibid)

However, there are inconclusive arguments on the impact and the role of microfinance and micro credit programs in poverty reduction. Proponents of microfinance consider that poor's access to credit boosts income levels, increases employment at the household level and thereby alleviates poverty. Also that, credit enables poor people to overcome their liquidity constraints and undertake some investments. Furthermore that credit helps poor people to smooth out their consumption patterns during the lean periods of the year (Okurut et al 2004).By so doing, credit maintains the productive capacity of the poor households (ibid).

Zeller and Sharma (1998) cited by Okurut et al (2004) argued that microfinance can help to establish or expand family enterprises, potentially making the difference between grinding poverty and economically secure life. But Burger (1989) observed that microfinance tends to stabilise rather than increase income, and tends to preserve rather than create jobs. In the same view, Arbuckle et al (2001) cited by Nalunkuuma (2006) indicates that studies carried found little to recommend that micro credit has any significant impact on enterprise incomes.

Evidence by Coleman (1999) suggested that the village bank credit did not have any significant impact on physical asset accumulation; production and expenditure on education. The women ended up in a vicious cycle of debt as they used the money from the village bank for consumption and were forced to borrow from money lenders at high interest rates to repay the village bank loans so as to qualify for more loans. However, impact for women who had access to bigger cheaper loans from the village bank was significant. The main conclusion of the study was that credit is not an effective tool for helping the poor to enhance their economic condition and that the poor are poor because of other factors (like lack of access to markets, price shocks, un equitable land distribution) but not lack of credit.

A study of 13 MFIs in seven developing countries concluded that households' income tended to increase at a decreasing rate, as the debtors income and asset position improved (Mosley and Hulme 1998) cited by Okurut et al (2004).Similarly, Hulme and Mosley (1996) cited by Lont and Hospes (2004) in a study made on Twelve lending institutions providing micro-lending services in seven countries found that the impacts of microcredit on the poor were on average small or negative relative to the control group. Results by Diane and Zeller (2001) in the study done in Malawi also suggested that microfinance did not have significant effect on household income.

Fisher and Sriram (2002) stress that access to microfinance services protects the poor against the often severe consequences of fluctuating incomes, ill health, death and other emergency expenditures. Despite the overwhelming claims that microfinance credit works best for the poor people, Johnson and Rogaly (1997) argue that poorest borrowers become worse off as a result of credit and that it makes them vulnerable and expose them to high risks.

Using gender empowerment as an impact indicator, some studies argue that microcredit has a negative impact on women empowerment (Goetz and Gupta, 1994). Goetz and Gupta (1994) as cited by Kabeer (2000) using a five-point index of 'managerial control" over loans as their indicator of empowerment. At one end of their index are women who are described as having 'no control' over their loans: these are women who either had no knowledge of how their loans were used or else had not provided any labour into the activities funded by the loan. At the other end are those who were considered to have exercised 'full' control, having participated in all stages of the activity funded by the loan including the marketing of the produce. The study found that the majority of women, particularly married women exercised little or no control over their loans by this criterion.

Sebstad and Chen (1996) as cited by Lont and Hospes (2004) in their summaries of the thirty-two research and evaluation reports found that micro lending to women had positive impacts on their empowerment in Asian countries. However, reports from African programmes found very little or no impacts of microcredit on the empowerment of women. In the same studies, credit had a positive impact on households' income, but the impacts on health, on the nutrition level of family members, and on children's attendance at schools were not conclusive.

Also the view that it is the less badly-off poor who benefit principally from microfinance has become highly influential and for example was repeated in the World Development Report on poverty (World Bank, 2000) cited by Montgomery and Weiss (2005). Simanowitz and Alice (2002) put it clearly that, the microfinance industry has concentrated not on reaching the poor but rather on financial and situational performance. Meanwhile Mayoux (2001) argues that microfinance institutions are undergoing a period of rapid innovations. They are coming up with products and new methodologies for reaching the broader category of poor people including the poorest of the poor. This will enable microfinance to have a significant impact in achieving poverty reduction.

Also where group lending is used, the very poor are said to be excluded by other members of the group, because they are seen as bad credit risk, jeopardising the position of the group as a whole. Similarly, it's argued that when professional staff operates as loan officers, they may exclude the very poor from borrowing, again on the grounds of the repayment risk (Montgomery and Weiss, 2005). Simanowitz in regard to groups points out that while the use of the groups has the potential to build social capital, develop skills; the way they are used varies considerably between MFIs. Some use them solely as means for creating peer group pressure while others use them more deliberately as vehicles of the empowerment (Simanowitz, 2003)

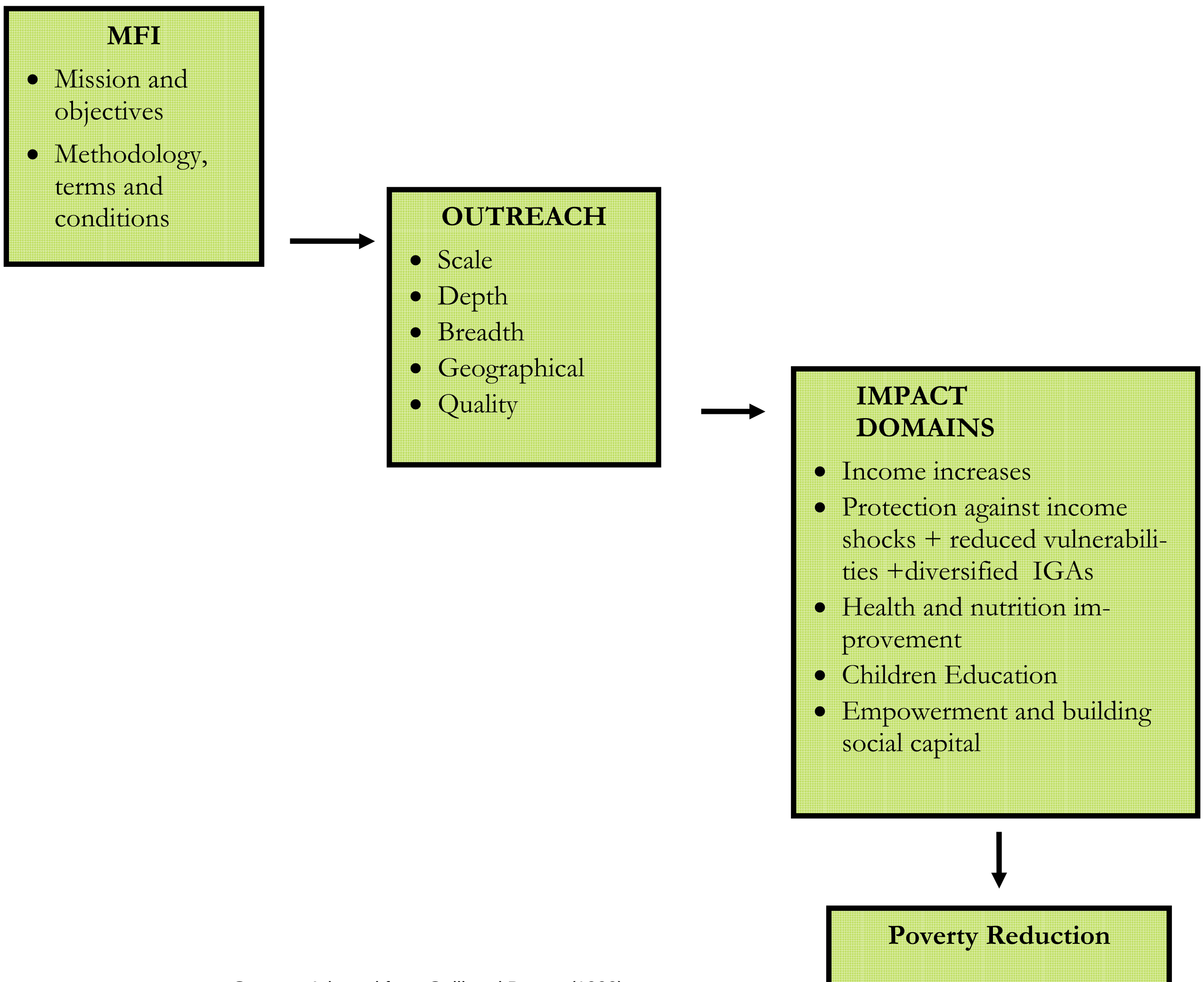
From the above discussions, we realise that core issues remain how to make microfinance accessible to the poor and ensure that the benefits are positive. For the purpose of this study, the above theoretical debates form the bedrock to explore into the role of microfinance in poverty reduction in Rwanda.

2.2.2 Analytical Framework

There are various factors and constraints which may explain why people are poor: inadequate amount and/ or quality of assets; constrained opportunities for welfare generation from assets; and qualitative factors such as vulnerability, powerlessness and social exclusion (Gulli and Berger 1999). The main contribution of financial services-savings, credit and insurance-is to address their financial constraints and to facilitate management of money (ibid)

Figure 1

Linking Microfinance with Poverty Reduction



Source: Adapted from Gulli and Berger (1999)

This analytical framework is build on the ground that if the MFI mission and objectives are geared towards poverty reduction, then the terms, conditions and methodology and product design have to be favourable for the poor to access the microfinance products and services which will be reflected in the outreach; how many poor people are reached (scale of outreach), how poor are the clients (depth of outreach), in which economic sectors are they engaged (breadth of outreach), where do they live (geographical outreach) and the quality which is how the services fit the needs of potential clients. Depending on whether the poor have been reached with microfinance, then impact may be expected in terms of (i) income generation, (ii) asset building and reduced vulnerabilities defined as increases in ownership of household's physical assets and reduced vulnerabilities as the poor are encouraged to save and diversify their livelihood activities, (iii) empowerment which means enabling the poor to have greater control over the resources and their lives and taking part in family and community decisions,(iv) building social capital implying reduced isolation, opportunity to share information and building the bond that was not previously there. (V) Good health in terms of improvement in nutrition and afford medical care, and (VI) education of clients' children which is investing in children's education as a result of new income from micro-enterprise. This will in turn lead to poverty reduction.

Chapter Three

This chapter brings out an overview of poverty situation in Rwanda, the Microfinance sector and its place within the National Poverty Reduction Programmes and the brief overview of the particular case study (Urwego Opportunity Microfinance Bank)

3.1 Poverty dimensions in Rwanda

After a decade of rapid economic growth, Rwanda is in fact still one of the poorest countries in Africa, with the majority of people living below the poverty line (World Food Programme (2006) cited by Bigsten, and Isaksson (2008)

3.2 Who is poor in Rwanda?

PRSP defined individuals as poor if they are confronted by a complex of inter-linked problems and cannot resolve them, do not have enough land, income or other resources, and as a result live in precarious conditions, unable to satisfy basic needs including food, clothing, medical costs, children's schooling etc. Two poverty lines were established. Households are deemed to be poor if their total annual expenditure is less than 64,000 Rwf (about 116 USD) per adult equivalent in 2000 prices and they are deemed to be in food poverty if their expenditures fall below 45,000 Rwf (about 82 USD) per adult equivalent per annum (Bigsten, and Yanagizawa, 2005)

The PRSP distinguished six categories of households, where the poorest were in the category *Umutindi nyakujya*, those in abject poverty. The characteristic of *Umutindi nyakujya* is that they need to beg to survive, have no land or livestock, lack shelter, adequate clothing, and food. They often fall sick and have no access to medical care. Their children are malnourished and the families cannot afford to send them to school. The richest, *Umukire, have* land, livestock and often salaried jobs. They also have good housing; often own a vehicle and deals with the banks in both lending and borrowing (ibid)

Table 1

The Characteristics of Households in Rwanda

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

(Source: Rep. of Rwanda 2002**)**

The Participatory Poverty Assessment and Analysis of the 1996 nutritional survey identified other characteristics of poor households: increased insecurity of land tenure; limited or no cattle holdings and small ruminants; lack of access to agricultural inputs; poor access to primary education; agriculture forming the primary source of revenue; no shelter; lack of food self sufficiency; long distance to market (Rep.of Rwanda, 2000)

Based on the categorisation in Table 1 above, it is evident that the first four categories from those in abject poverty to the resourceful poor are unlikely to participate in the formal banking because as they have nothing to pledge in form of collateral and therefore would be expected to be served by microfinance.

Accordingly, vulnerable population such as women-headed and child headed households are generally more at risk of being poor than other groups.

Almost 25% of households are headed by women in 2006 and 0.7% of households are headed by children (Rep.of Rwanda, 2007).Nearly three-quarters of the population of Kigali (urban) is the richest group, the wealthiest 20% of the population. In contrast the rural areas form a disproportionately large fraction of the poorest group of the population (ibid)

According to the Economic Development and Poverty Reduction Strategy (EDPRS), rates of poverty reduction in Rwanda since 2000 have been modest and not fast enough to meet either the targets set in Vision 2020 or the MDGs (Rep.of Rwanda, 2007)

3.3 Gender and Poverty in Rwanda

Existing literature shows that poverty in Rwanda is biased against women. In 2002 the extreme poverty rate (unable to meet their food needs) among women was 42.16%, against 41.05% for men, while the simple poverty rate was 61.16%, compared with 59.28% for men.

According to the 2002 census, Widows accounted for 56% of female-headed households. The incidence of poverty was 7.3 percentage points higher in female-headed households than in male-headed households and the differential for extreme poverty was even larger. An estimated 62.15% of women-headed households were poor, compared with 54.32% for male-headed households, and 43.5% fell in the category of the poorest, against 35.08% of male-headed households (UNDP Rwanda, 2007)

3.4 Inequality in Rwanda

Inequality in Rwanda is not only rising, it is changing in nature: it is becoming increasingly rural and increasingly detrimental to the poorest and most vulnerable groups in society (UNDP Rwanda, 2007). The average income of the top 20% of the population has almost doubled since 1996, while the income of the bottom 20% has remained stagnant in the past 10 years. Rwanda's Gini coefficient, measuring economic inequality, has almost doubled in the last 20 years, placing Rwanda among the top 15% most unequal countries in the world. At current inequality rates, it is estimated that further growth could increase the gap between rich and poor without decreasing poverty (ibid)

3.5 Microfinance Sector in Rwanda

The microfinance sector in Rwanda is relatively young. Although small self-help peasant organizations (such as tontines and *ibimina)* have existed for some time, the sector started to be formalised with the creation of the first Rwanda Peoples Bank in 1975. Following the 1994 genocide in Rwanda, the microfinance industry experienced spectacular development, with the support of international organisations involved in humanitarian assistance. These gave material assistance to the population but they had into their programmes microcredit components. As the government moved into development phase, several NGOs transformed themselves into microfinance institutions.

In 2005,Rwanda had almost 230 institutions involved in the microfinance sector (including 149 Peoples Banks).Geographical coverage of MFIs is unequal with more concentration in urban areas and some trade centres (Rep. of Rwanda,2006)

Rwanda microfinance assessment done in 2005, estimated that 15% of the economically active population has a savings account in formal financial institutions. The percentage of the active population with access to finance is 21%, which is higher than the access to formal accounts. The Assessment estimate that the number of people in need of microfinance and currently not serviced is 2.1 million people

Table 2

Estimate of the low income active population without access to financial services in Rwanda

	Statistic	Calculation
Population size	8.8 million	
Active population	53%	53%*8.8 million=4.6 million
Active population with access to financial services	21%	21%*4.6 million=996,000
Active population without access to financial services	79%	79%*4.6 million= 3.6 million
In terms of population below poverty line	60%	60%*3.6 million=2.1 million

Source: Enterprising Solutions Global Consulting, LLC (2005)

3.6 Microfinance and National Objectives

3.6.1 National Poverty Reduction Strategy

Microfinance is seen as an important instrument in the implementation of the government programme to reduce the number of the people below the poverty line from 60% in 2000 to 30% in 2015.The new Economic Development and Poverty Reduction Strategy (EDPRS) emphasises the role of microfinance in the fight to reduce poverty and to increase economic growth in Rwanda. In its Vision 2020, the government also points out to the role that microfinance sector will play in the attainment of the goals of the government's Vision 2020 programme. This vision is focused to transforming Rwanda from a low income to a medium country with dynamic, diversified, integrated and competitive economy (Republic of Rwanda 2006)

3.6.2 Vision 2020 Umurenge

Vision 2020 Umurenge is a rural development programme which aims to increase the efficiency of public service delivery and to reduce poverty, with the goal to eliminate extreme poverty by 2020. The programme reflects grass root priorities to be implemented at the village level using community-based participatory approaches. The prime objective is to release the productive capacities of the poor and extremely poor.

The programme, which is now being piloted, identifies certain vulnerable target groups and aims to deliver packaged interventions that meet the specific needs of a certain group. According to the vision, farmers owning small plots of land, for example, could be assisted with various initiatives aimed at increasing agricultural productivity. Similarly small scale entrepreneurs should be targeted by technical assistance schemes and micro-finance programmes. The often very poor agricultural wage labourers should be targeted by schemes to provide on- as well as off farm employment, training, and better access to financial services. And finally, landless individuals that are unable to work because of disability should be reached by social assistance (Bigsten, and Isaksson, 2008)

3.7 The Case Study: Urwego Opportunity Microfinance Bank

3.7.1 Genesis, Organisation and Practice: An Overview

The Urwego Opportunity Microfinance Bank (UOMB) of Rwanda is headquartered in the central district of Kigali with branches in 27 of the 30 districts in Rwanda, more than 28,000 loan clients and over 3,000 savings clients. UOMB has $4.5 million in equity capital and a loan portfolio of $1.7 million. (http://www.opportunity.org)

Institution's Mission: URWEGO is an emerging microfinance institution that works to alleviate poverty by providing credit, savings, and training services that will allow poor micro-entrepreneurs to take advantage of economic opportunities. The word "Urwego" is Kinyarwanda for ladder to success". URWEGO aims to permanently help the poor escape poverty by becoming a self-sustainable microfinance institution that can continue without donor funding (ibid). In only its fifth year of existence, URWEGO had reached over 70% financial self-sufficiency. (http://www. mixmarket.org)

URWEGO as part of the World relief program began its operations in July 1997 when the Rwandan government was moving away from relief to development programmes. The World relief program had worked in Rwanda since 1995 immediately after genocide in different relief programs. Urwego therefore originates from World Relief and was since the start focused on poverty reduction through microfinance for the poor. In 2004, Urwego was named the best MFI in Rwanda with an outreach that is broad, deep and significant on poor peoples' lives by the UN. (Iribagiza, 2007)

Opportunity Microfinance Bank of Rwanda is operated by a partnership of World Relief, which has operated Urwego Community Banking, the first and largest microfinance institution in Rwanda, since 1997; World Relief Canada, HOPE International, and Opportunity International. It's from Urwego Community Banking that the new name Urwego Opportunity Microfinance Bank came after the merge with the Opportunity International.

Credit Lending process: Urwego loan lending is largely group based though an individual loan has been introduced of recent for the more affluent clients. The formation is by group self-selection. The group size acceptable is 20-45 for community Banks/groups and 5-8 for solidarity groups. Before receiving the first loans, the clients meet for four to six training sessions.

Chapter Four
Study Findings and Analysis

4.1 Introduction

This chapter is a presentation of the research findings and analysis. Chronologically, the findings and analysis are presented and done according to the arrangement of the research questions that guided the study. It thus follows; who the poor have been reached under the microfinance programme, what kind and or nature of products and services are provided, what has been the outreach, what has been the impact to the clients and the challenges faced in reaching the poor.

4.2 Clients Respondents' profile

Table 3 (Annexed) Shows the MFI clients' respondents' characteristics. Envisaged from the table is that, most respondents are female (81 %); the reason is that they form the majority clients of the MFI.

The rural clients have the low loan sizes in comparison to their urban counterparts. The biggest loan amongst the rural clients was 100,000FRW compared to 300,000FRW for the urban one and most clients invested their loans generally in running the shops. However, looking at the rural and urban use of the loans indicate that most rural clients used their loans to trade in the agricultural produce while the urban was mainly engaged in running shops.

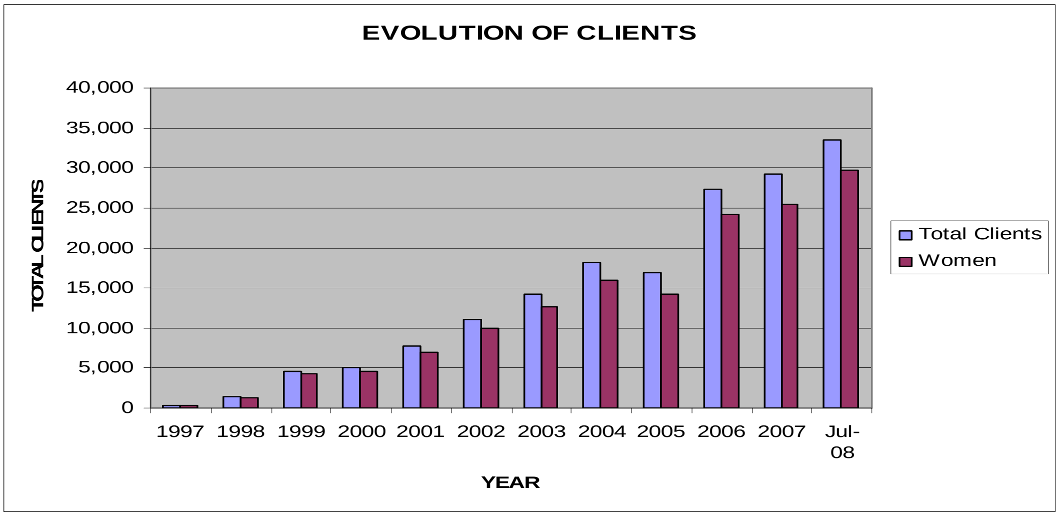
4.3 Poverty targeting

Experience shows that unless there is a targeting tool, the poorest will either be missed or they will tend to exclude themselves because they do not see the programs as being for them, do not have the proper dresses to get out of their homes etc (www.countercurrents.org). It's thus follows that MFIs that design programmes around the needs of the poor are likely to retain them as clients.

As was found out in this study, Urwego micro finance provides microfinance mainly targeted to women. According to the interviews held with Urwego officials, men have to constitute not above 10% of the clients in the groups. The focus on women is because they form the majority of poor people in Rwanda and therefore lack collateral for conventional banks. As already pointed out in chapter three simple poverty rate is 61.16% for women, compared with 59.28% for men according to the 2002 census in Rwanda.

Figure 2

Women clients Vs Total clients



Source: UOMB, MIS office

As shown in the figure above, the number of women served by UOMB has since from the start been very high compared to their male counterparts. In figures, women total 29,781 which is 89% of 33461 total clients.

There are however, two additional questions: What criterion of poverty does the institution apply with respect to individuals in targeting their operations and what criteria does the institution apply in making the operational decisions on which areas to target their activities. As was found out from both the interviews with the officials and UOMB manual, the institution has no clear and strict poverty based eligibility rules (No means test, wealth ranking).It lends to the poor whom they code named '*the economically active*". The institution definition of the active poor is those that have small businesses and capacity to repay back the loans. From the poverty spectrum, the economically active poor are the richest of the poor just close to the poverty line. This category of people if placed in the six categories of poor people in Rwandan context (see Table 1 in Chapter three) would fit into the forth category of the resourceful poor /*umukene wifashije*. This has serious implications for the poor of the poor (the core poor) who are excluded. Moreover, the microfinance policy document emphasises that MFIs should be available to all sections of the community including the poorest of the poor (Rep. of Rwanda, 2006)

Also, what was evident in the interviews held with the clients of UOMB was the increasing level of collateralization even within the groups. Apart from the group guarantee which is a requirement by the MFI, within a group itself, the member has to pledge some form of collateral either in form of household chattels, land. This has to be sold to repay the loan in case the member failed to pay. Though these collaterals are not of the same quality as those required by the formal banks but is still of significance to the poor. This poses another challenge for the very poor to be part of the groups for loans.

Focusing on women also excludes men who are equally poor and need microfinance services. During the study it was found out that UOMB insists that men have not to exceed 10% of the group. However, informants' explanation of why the bank excludes men brings a hidden transcript. The microfinance officials understand that even if the loans were extended to women, men or husbands use these loans and supply instalments to women for weekly payment. In fact during the focus group discussions which took place at loan payment centres found that men/husbands came to pay for their wives instalments. In the interview with the microfinance field officers, it was mentioned that they didn't understand the logic of focusing on women and had requested the administration of the MF programme to revise this and lend to both men and women equally but this has delayed to take place. This suggests that targeting women largely by the programme could be strategic for the MFI, i.e. accomplishment of the goal of investment and recovery of loans. One would argue that UOMB should consider lending to both poor men and women since poverty cuts across the two. However, for the case of women, Kabeer (1996) as cited by Johnson and Rogaly (1997) argues that women-whether poor or not suffer discrimination in the market and thus important to ensure that women can obtain loans provided by intervention agencies. It is thus important to recognise that though the institution has not served all sections of the population, it has managed to serve a proportion of population that would otherwise fall out of the banking system. Overtime, UOMB has been able to reach poor groups especially women not previously able to participate in the formal banking system because of the cultural barriers that often restrict them to the home. However, some groups still remain beyond its sphere of influence. It's realised that UOMB strategy is inadequate for reaching certain groups of the poor

4.4 Microfinance Products and Services

An inventory of products and services provided by UOMB was done during this study and the analysis of which answers my second research question which was to examine the nature of products and services provided by the microfinance.

4.4.1 Loan products

Urwego Opportunity Bank provides a number of loan products

Community Bank loan

This product is offered to a group of people that have self-selected into groups of 20-40 individuals. Group members typically operate small businesses and have little or no collateral; members within a community Bank group cross guarantee one another's loan (Group based lending).

This product requires weekly repayments following a two weeks grace period and matures in 16 weeks. Initial loan size ceiling is 50.000RWFs (about $91 USD) and a floor of about 20.000RWFs

Loan officers travel to the customers' location to facilitate loan disbursement and weekly repayments. Together with the weekly payment, clients are required to save a small amount of money (10%) which is returned to the clients at the beginning of the next loan cycle depending on whether the group intends to withdraw their savings.

Solidarity Group Loan

This is a graduation product for the members of the community bank loan whose businesses grow to a level that requires lending that can no longer be supported by the community bank product loan size. This loan requires a small group of about 5-8 members who often have to come from the same community Bank and have a history of working together.

The Solidarity Group product is meant for the maturing clients who have at least five cycles of good repayment history. Initial loan size ranges between $500 USD and $2500 USD. The term of solidarity Group loan is six months and repayments are made on a bi-weekly basis.

The Home Improvement Loan

This loan product is available to the top performing customers in the community Banks and solidarity Groups, who own a house and want to renovate/reconstruct their homes. HIL customers remain participants in their Community Bank or Solidarity Group, but form a second group of about 5-6 HIL participants. This loan is dependent upon the credit history of the clients and their housing needs. The loan length is 8 months payable bi-weekly at an interest of 18% per annum. The loan size is 200,000RWFs (about $370 USD)

Village Phone Loan

Urwego in partnership with Grameen Foundation developed this product to serve the existing customers located in rural areas where existing mobile phone coverage doesn't reach and have no communication or electricity connection. UOMB provides a loan of roughly $275 USD over a 6 month term at a rate of 36% per annum to purchase a village phone kit which is provided by the Grameen Foundation and MTN, a local cellular provider.

Individual Loan

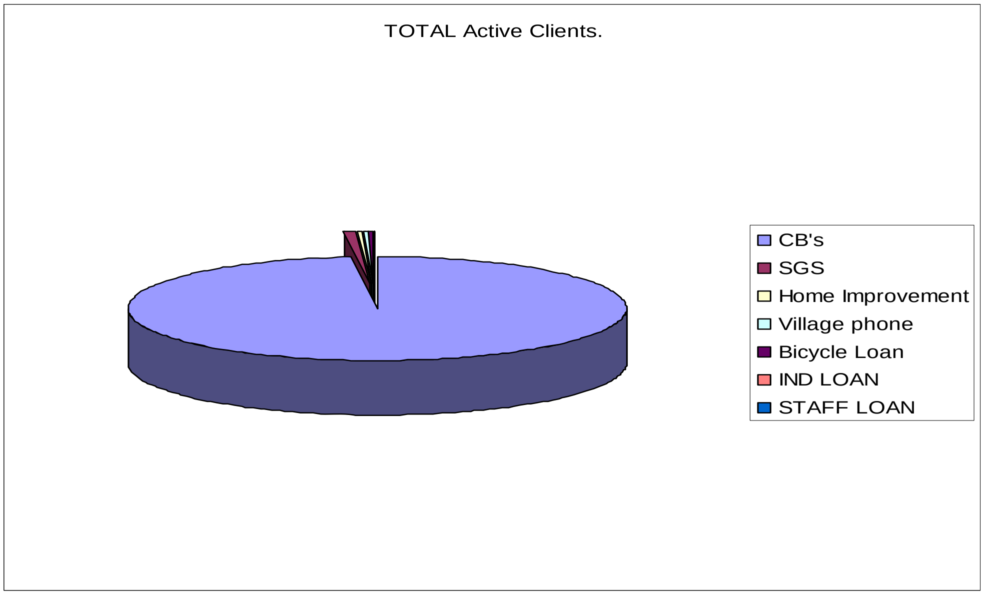
This is a new product introduced early 2008 and is tailored towards individuals or UOMB's clients who want to expand or establish their entrepreneurships. Clients who demonstrate some form of collateral can acquire a loan ranging between 250,000 RWFs (about $500) to RWF 5,000,000 ($ 10,000) at 18% declining balance interest per annum repayable in a period of 4 to 18 months.

Newly introduced loan

Bicycle loans

Education loans

Figure 3
Clients distribution by loan products



Source: UOMB MIS

Figure 3 above shows the distribution of clients by different loan products provided by UOMB. As envisaged from the figure, Community bank loans comprise the biggest percentage of clients than other loan products. Figures indicate that this loan product share the highest percentage (98.4%) of the total clients. This suggests that most of the UOMB borrowers fall in the low income group categories. This is because, it's the group that is expected to be served through group lending and would equally go for very small loans. As presented elsewhere in this paper, CB's comprise of members who have very small businesses or no collateral at all and therefore based on group lending with small loan amounts of 50.000RWFs (about $91 USD).

In the support of the above, Ledgerwood argues that MFI that seeks to provide the very poor with credit should design its loan products so that the small loans are attractive only to the very poor. The MFI may also require group guarantees and weekly attendance at group meetings. The affluent usually see this as inconvenience which makes the credit attractive only for the poorer clients (Ledgerwood, 1999)

Analysis of the loan products provided by UOB also reveals that, the microfinance tries to meet the various needs of the poor. UOMB acknowledges that poverty is a multi-dimensional concept-that poor are not homogeneous and neither are their development needs. First, UOMB has always opted for the 'credit plus' approach, where loans are given to poor clients in combination with various forms of skill training. Prior to the disbursement of the loan to the group, the group members are trained in entrepreneur skills to enhance their capabilities of managing their small businesses. During the interviews, the clients expressed that they had been trained especially on how to calculate their profits and expenses which smoothened their business operations and acted as early warning in case one was to fall in losses.

Also as evidenced from fig.3, in order to reach the diversified needs of the poor, UOMB has introduced different loan products that could be borrowed by the poor at the same time. For instance, the borrower can take the bicycle loan in addition to the CB loan. This widens the choices for the clients and offers opportunity to deal with different needs.

UOMB has enabled low income people access to financial and non-financial services. It has created financial and services that are packaged in a manner that enables low income people who are unable to access formal financial services to access comparatively small loans, saving schemes and other services for working capital and income generation. Through progressive lending, the small income earners and users of microfinance services later graduate to be clients of larger financial intermediaries. However, a close analysis of the data shows that very few microfinance clients have graduated from CB loans to SG loans. This suggests that the clients cannot work beyond their current capacities because of market potentials though some clients mentioned that UOMB was reluctant to give them higher loans even when they requested for them.

Despite the fore mentioned positive critique on the design of loan products provided by UOMB, we need to understand that the poor are not a homogeneous lot of people, hence the challenge to designing appropriate financial products that meet their diverse needs. Currently, UOMB mainly provides generic products with standardised features. The current product features are characterised by short loan periods, short time grace period, weekly repayments and small loan amounts. These product features may not be suitable for all the categories of the poor people. For instance agricultural related investments may require loans that have a more extended duration of repayment.

To buttress the point above, one respondent in Gahini (rural) who sells second hand clothes said '*When I take the loan, I need to purchase the clothes from the market in Kigali city. To get the repayment money, I need to take these clothes for sale to at least two markets which hold on the different days of the week. But sometimes, the weekly repayment is due before I 'am able to sell and make the payment'* This is an indication that the one week repayment period may not be convenient to all groups of the poor people and that the repayment period should be negotiated depending on the type of the activity in which the client engages. The quotation raises the issues of the sources of funds for loan repayment which according to most respondents' said they give back part of the loan than profits out of them. This kind of product design constrain the uptake of the loans and might have profound negative impact on clients and their households as they struggle their way out of poverty.

In the same view, the problem with the products offered is that most are directed to income generating activities, or delivered for those who have existing businesses such as a small shop, street trade or physical collateral. These remain the predominant requirement in order to be part of the group or to get loans from UOMB. In this sense, the institution is still quite conventional and avoids innovation to include the poorest in banking system. Moreover, the government of Rwanda points out that the often very poor agricultural wage labourers should be targeted by schemes to provide on- as well as off farm employment, training, and better access to financial services (Bigsten, and Isaksson, 2008).Hulme and Mosley (1996) as cited by QoriwIn

(2005) notes that designers and sponsors of new initiatives have abandoned innovation, and replication is leading to a growing uniformity in financial intermediation.

Taking a rural-urban comparison, the study found out that the weekly loan repayments were favourable for urban dweller clients compared to their rural counterparts. The rural (Gahini) Urwego clients repeatedly stressed weekly payments as one of the burdens to their businesses. This coincides with the findings of the Economic and Social Impact Assessment done by UOMB in which 29.03% of the clients indicated that weekly payments were too burdensome. On contrary most of the urban respondents reportedly said that weekly payment was appropriate for if it was to be a monthly payment for instance, the loan could accumulate into big amounts that would be more burdensome. This suggests that loan repayment should be designed according to contexts and activities for which the clients engage in and therefore there is need to move from this 'one size' fit all. Verified in the number of studies, it has been that even a well designed microfinance programme is unlikely to have a positive impact on the poorest unless it purposely seeks to serve them through appropriate product design and targeting.

In the support of the above, Ahmed (1999) cited by Okurut et al (2004) argues that payment of small period instalments may not be a good method of collecting loans from poor people experiencing persistent negative shocks, despite being acceptable as good practice. He further stresses that for MFIs to meet the needs of the poor, they need to understand the vulnerabilities that the poor operate in and design flexible products that cater for the income vulnerabilities of the poor. In the same view, Sharma and Zeller (1999) argues that reducing cost of credit delivery and increasing the marginal impact of credit on borrower depend on the extent to which credit and savings services are responsive to area specific characteristics.

4.4.2 Lending Technology

While formal banking system is inclined to using the collateral based lending which is makes it inaccessible to the poor on the account of lack of collateral, UOMB has emerged to provide credit using mainly group lending (joint liability contracts).Under the joint liability contracts, members are responsible not only for the repayment of their personal loans but also for the loans of other group members in case of default. The use of the 'social capital' as opposed to physical collateral in accessing the loan makes it easy for the poor who couldn't provide the collateral.

However, investigation into the operation of the group found that they were difficult to form especially to raise the number required by the MFI (20-40 individuals). Similarly, to join the group, the group members often asked physical collateral that would be sold in case of failure to pay the loan. This means that people without such collateral get excluded. In the same vein, recruitment into the group depended on whether an individual was known or introduced to the group by any of the group member. This implied that such poor people like migrant workers without strong social networks in the areas in which they work get excluded

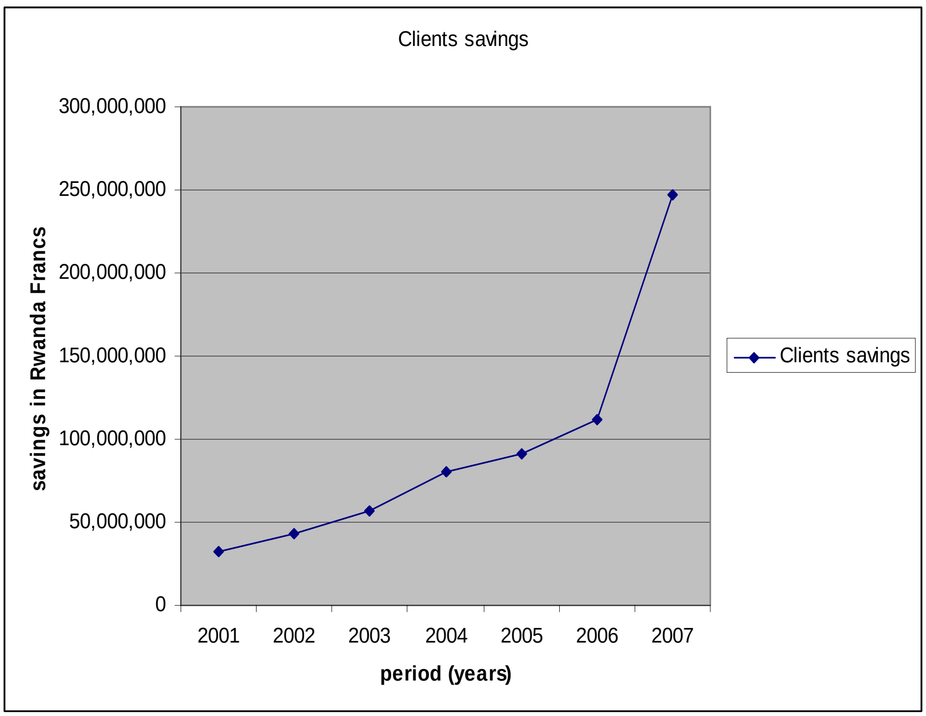
4.4.3 Saving mobilisation

Fisher and Sriram (2002) citing Johnson and Rogaly (1997) indicate that poor people need access to so many more financial services than just micro credit, including saving products. They stress that these services protect poor people from the impact of unforeseen crises and emergencies in the households or micro businesses from falling yet further into debt and enable poor households to plan and manage their resources more effectively to meet their basic needs.

The Study found out that saving mobilisation forms part of the products offered by UOMB to the poor. By linking credit to savings in their lending methodology, Urwego microfinance has inculcated a culture of saving among the clientele. The clients are required to save 10% compulsory saving which has to be made during the weekly payments. This saving is returned to the clients at the beginning of the next loan cycle depending on whether the client needs to withdraw it. Buckley stresses that it is not the credit itself that levers the poor out of poverty but their ability to save from income generated from the use of the credit (Buckeley, 1997)

UOMB also operates voluntary savings with up to 3000 saving clients. It is said that microfinance programmes that stress only lending are likely to be missing opportunities to assist the many poor people who may wish to save but do not necessarily wish to borrow (ibid). However, the voluntary saving component is quite new and currently only operated in the capital Kigali.

Figure 4
Trend of Savings mobilised by UOMB since 2001



Source: UOMB MIS

The above graph indicates that savings mobilised by the UOMB has steadily increased from 32,259,806 RWFs in 2001 to 247,242,761 RWFs in 2007.This is an indication that poor people need and use saving services. Voluntary savings assume that the working poor already save and that what is needed are institutions and services appropriate for their needs (Johnson and Roglay,1997).The fact that UOMB has steadily mobilised savings supports such an argument.

According to Robinson (1994) cited by Ledgerwood (1999) micro-entrepreneurs, like any other business people save for at least these reasons; consumption and for consumer durables, investment, social and religious purposes, retirement, ill health, or disability and seasonal variations in cash flow.

4.5 Microfinance Outreach

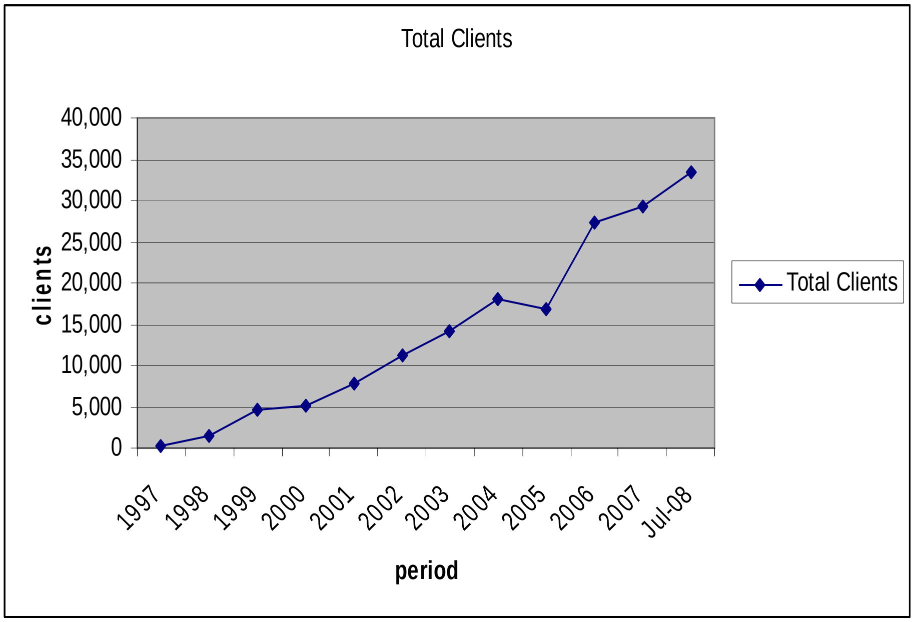
One of indicators to be successful MFI is outreach that is indicated by the numbers of people served by the MFI either for saving or borrowing (Chaves and Gonzales-Vega, 1996) cited by QoriniIwan (2005). But, Meyer (2002) as cited by Kereta (2007) noted that outreach is a multidimensional concept. In order to measure outreach we need to look into different dimensions

'The first is simply the number of persons now served that were previously denied access to formal financial services. Usually these persons will be the poor because they cannot provide collateral required for accessing formal loans. Women often face greater problems than men in accessing financial services so number of women served is often measured another criterion…….Although difficult to measure depth of poverty is a concern because the poorest of the poor face the greatest access problem. Some measure of depth of outreach is needed to evaluate how well MFIs reach the very poor. Finally; the variety of financial services provided is the criterion because it has been shown that the poor demand and their welfare will be improved if efficient and secure savings, insurance, remittances transfer and other services are provided in addition to the loans that are the predominant concern of policy makers'

This categorisation corresponds with the one presented in the analytical frame work (See figure 1) that points out to the five (5) key aspects of outreach; the scale, depth of poverty, Breadth, geographical and quality.

In regard to membership (the scale) which is the best indicator of a program's outreach, the study findings of UOMB found that the number of clients has been surging since the institution started in 1997 to present.

Figure 5
Trend of institutional Outreach by number of clients



Source: UOMB MIS

As can be noticed from the above figure, the number of clients served by UOMB has increased since 1997.The institution started in 1997 with 306 clients and now serves 33461 clients by July 2008 which is an indicator that it is reaching more people. In the same manner, the number of credit groups evolved from 295 by the year 2001 to 915 in 2007.

Geographical outreach has equally increased over time. The institution serves 27 districts out of 30 that make up Rwanda. Through many branches country side, the institution has managed to reach most areas that were previously left un-served by the formal banks. In the interviews with the clients, one of the respondent in Gahini said '*Urwego microfinance really came at a time we needed it, there was no any bank in this small centre, even where the banks existed, they required collaterals which we could not afford*'. This statement is an indication that microfinance serve the areas which had been left out by the formal banks. However, it's important to note that still most of these sub offices of the microfinance are placed in urban, peri-urban and small towns with some network of infrastructure leaving the rural remote areas not served.

The number of clients is a mere indicator for how MFI is reaching the poor. Various techniques, some expensive and some simpler are noted in literatures to measure client poverty level (depth of outreach) Though it is not precise, loan size is one of the simpler indicators that small loans represent poor clientele (Cull,R et al., 2007).The logic is that better off clients are not interested in smaller loans. In this regard, the study found that UOMB is pro poor, using loan amount below $150 (approximately, 82,500 Rwandan francs) as rough benchmark for calling the client poor[3].As already pointed out somewhere in this paper, UOMB lending process starts with a small Initial loan size ceiling of 50.000RWFs (about $91 USD) and a floor of about 20.000RWFs. The loan size is then scaled up if the borrower demonstrates an ability to repay on time.

The study findings also reveal that by broadening the range of financial products, UOMB has been able to reach many poor people. As the inventory of the products show, UOMB has diverse loan and saving products with different terms and requirements that are provided to the clients. According to Gulli and Berger (1999) the poorer strata of the population might be reached with a broader range of financial services, such as savings and consumer credit and if products are better tailored to the needs of the clients. However, it's important to realise that the potential client for UOMB is one with a start up business/petty business and not all the poor people which excludes most of the sections of the poor who cannot start up any business on their own from participating into the microfinance programme.

4.6 Impact on clients

This section answers the fourth question of my research study which was analyse the impact of microfinance on the clients. The major areas of impact

[3] The benchmark is obtained from core performance indicator for microfinance of United Nations Capital Development Fund (UNCDF). http://www.uncdf.org/english/microfinance/uploads/evaluations/Core%20Indicators--UNDP%20version.pdf accessed on 4th Sept 2008

captured in the study are empowerment, increases in the incomes of the clients, reducing vulnerabilities, education and health

4.6.1 Empowerment

The findings of this study indicate that women form the majority of the poor served with loans by Urwego. However, a useful distinction to be made is between women receiving a loan and using it. Literature has indicated that, even when it was women who received the loans, gender relations within the household affected how loans were used and the degree of control the women borrower retained over their use. It thus become important to understand what happens to a loan beyond its disbursement.

The question about domestic violence was asked and responses in both individual and focus group discussions came out frequently to suggest both that it had been a significant problem in the past and that at least those forms of violence which stemmed from scarcity-related frustrations had been reduced in the wake of women's access to UOMB loans. The link between credit and violence was made by a number of women in both individual interviews and focus group discussions.

One woman respondent said *'my husband used to get angry whenever I would kneel before him (kneeling is a sign of respect that women pay to their husbands) to ask for money to buy clothes or any other domestic item but now I no longer kneel before him to ask money frequently. Similarly, I used to disturb neighbours and relatives asking for various things including clothes, salt, soap but now I buy them on my own and we are now happy with my husband in the house"*

Also a woman respondent from Nyamirambo said '*I can now take out my husband for a drink and can buy meat that he would find ready on table than before when he could eat meat and drink outside in the bar alone and bought beans for the house'*

The above stories suggest that through microfinance provided by UOMB, clients especially women have been empowered economically and this has impacted positively on their household relations with the husbands. However, when I probed to whether these women had full autonomy over their monies, most reported to have joint bank accounts with their husbands which raises questions to whether women really have 'full' control over the loans and profits that accrue thereof.

In the same way, the male counterparts felt that their lives had changed fundamentally. In an interview with one male respondent, he expressed that '*Ufite Ifaranga avuga igifaransa'* which literally means that one who has money has voice. This is an expression of being empowered.

On the same note, group based lending methodologies used in the delivery of microfinance by UOMB has increased the potential of clients' knowledge and participation in a wider perspective. This is not to argue that these groups were deliberately created as vehicles of empowerment than means of creating peer pressure. However, no matter what the intention was, the groups have enabled clients to take collective action on issues beyond the narrow confines of financial services in the wider community. As was revealed by most clients the groups have moved them away from isolation and helped to cement their informal social connections.

Focus group at Gahini said '*we now feel concerned of each other. We help and visit each other especially during time of sicknesses"* In the view of clients interviewed, this peer support has much more meaning than the peer pressure to repay the loans.

This finding coincides with those revealed by the Economic and Social Impact Assessment conducted by UOMB in which 37.42% of clients cited more often that the group methodology helps them to make friends and escape loneliness while 58.71% said that the group methodology allows them to share ideas and business advice (UOMB, 2007)

Simanowitz (2003) in highlighting the importance of groups indicates that for the poor in the context of high unemployment, vulnerability is created by the lack of the right social connections, particularly as sources of social security.

4.6.2 Increasing Capacity and Reducing Vulnerabilities

If increasing capacity to cope with calamities is considered to be indicator of improving poverty situation, then, UOMB members are in better positions to cope with such situations. Study findings show that most clients bought assets such as small plots of land, livestock, through the loans and profits that accrued thereof and these according to them served as a buffer in case of any shock and or emergencies. This response was common amongst the rural clients than it was for their urban counterparts. The urban clients reported largely that they had used the loans and profits to expand their businesses. This is an indication that livelihoods differ and ways to cope with shocks and emergencies differ as well. It also suggests that the microfinance has different clientele for which some group of clients need loans for promotional purposes while others may need it for protection reasons.

One rural woman respondent said '*I have been able to buy two goats out of the profits from the use of the loan. I now feel secure, even if my shop made losses I would sell one of the goats to run my business again or in case I needed to meet any domestic need".* From the responses of the interviewees, it can be said that UOMB helps its clients to engage in and diversify their economic activities which helps to reduce their vulnerabilities. These findings tally with those of the Economic and Social Impact Assessment survey done by UOMB in which 27.1% of clients cited livestock as most purchase made (UOMB, 2007). Moreover, Wright (1999) in support of empowering the poor with multiple skills, proceeds to add that the poor usually work towards diversifying their income sources than specialise in one activity. Similarly, most clients especially those dependent on agriculture reported that microfinance has helped them to deal with seasonality in consumption. At the harvest time, their income reaches the peak. In other periods they have almost nothing. Microfinance therefore offers them alternatives. They borrow loans and do different income generating activities during non-farming periods.

Also it was found out that, saving mobilisation which is an integral part of UOMB program enhances capital accumulation and greater capacity for self-investment. In addition, the ability to purchase more productive assets improved. As was revealed by the respondents, the 10% compulsory savings that they make weekly accumulate into big sums and helps them to expand their capital at the end of the cycle and or may choose to buy assets, domestic items hence protecting their businesses.

Anecdote findings also revealed that the ability to save regularly does not only enforce a savings culture but also stops savings being accessed for non-essential items and that lack of constant access is a positive benefit as other household members cannot misappropriate the money. One of the respondent said that '*I understand very well that even if I had not saved this money with the MF, I would still not know how I spent it at the end of day for I would spend it on the items that do not matter to me'*

In support of savings services, Vonderlack/Shreiner (2001) as cited by Momoh (2005) state that the recent shift in terms from micro-credit to microfinance reflects that savings services – and not just loans – may help to improve the well being of the poor in general and women in particular and that borrowing is riskier than saving. Rogaly (1996) in the same way points out that it is possible through credit to achieve sustainable jump in an individual or household's total annual income but if poverty is understood as vulnerability to sharp downward fluctuation in income (whether seasonal and predictable or caused by sudden shock), financial services might be better used to protect people via introduction of saving facilities.

4.6.3 Impact on the Incomes of Clients

According to the findings of the study, there have been increases in the incomes of the microfinance beneficiaries most especially amongst the urban clients. Most clients claimed that their incomes had increased since they joined Urwego. Out of the loans, they have been able to expand their businesses, buy assets and graduate to bigger loans. To cite an example, a woman respondent from Nyamirambo said;

"'My friend gave birth to me[4] *when she introduced me to Ndamirabana (literally mean-support your children) group that gets Urwego loans. I also now give birth to many more of my friends. I received the first loan of 30,000RWFs in 1997 and now (2008) have*

[4] My friend gave birth to me is directly translated from Kinyarwanda word *kubyara* which according to clients, if some one introduces and makes you part of the group is considered like a parent giving birth to a child

progressively graduated to a loan of 150,000 RWFs. With the help of the loan, I have been able to do and expand my fruits petty business out of which I sustain my two children in school (the rest five dropped out before I joined Urwego), I am able to buy them milk, before joining Urwego, I had one single dress that I would put on during the day, wash in the night and put again the following morning, but now I am able to buy myself several dresses. I also get transport to visit my husband who is jailed far away from here"

The story of this respondent is a typical case that Urwego through group lending has been able to reach a population that lacked loans before on the grounds of lack of collateral. Once they join groups they are able to access loans which help them do productive activities that enable them to improve their living standards. The study however recognises that it may be difficult to attribute all these changes to microfinance program of UOMB as it was problematic to identify any baseline to compare the results to. It's also difficult for clients to separate the benefits of the loan from individual incomes.

However, income increases as a result of the loan look different when an analysis of the rural- urban findings is done. Where as urban clients reported to have had greater increases in their incomes and businesses as a result of the loan, their rural counterparts reportedly said that their incomes had not improved substantially. This could also be evidenced from the way the clients graduated to higher progressive loans in the urban than rural counterparts as well as the drop out. The members of the association interviewed in the focus group in Gahini revealed that the association had lost membership from an approximate number of forty members to only twenty five. This was to some extent attributed to the failure of their businesses. This could be attributed to the nature of businesses and market potentials that are different for the two areas. It could also suggest that urban clients are already better off than their rural counterparts at the time they become beneficiaries of microfinance. Literature has indicated that the better off clients benefit more from microfinance and bearing in mind that poverty in Rwanda is largely a rural phenomenon suggest that more of the rural clients are likely to be poorer that their urban counterparts.

If we could also use progressive loans as an indicator of a progressive business, we find that urban clients had graduated to bigger loans while their rural counterparts either kept at the initial loan size or increased slightly above that (Refer to Table 3 annexed). In fact, from the individual interviews held with the clients from Gahini (rural), most of them had not been consistent clients (they were irregular clients). After a certain period of borrowing, they drop out and come again after sometime. Similarly, taking further analysis into the clients' businesses, it was established that the rural clients' businesses were less likely to graduate to more sophisticated levels of operations as the clients opt largely not to re- invest in their businesses and instead buy domestic items or livestock. These findings again suggest differences in poverty levels, market potentials and differences in appropriateness of the microfinance (loan) product design between rural and urban.

Similarly, differences were noted in the accumulation of assets among the clients. Newly recruited borrowers and clients who from time to time dropped out of the microfinance program were likely to have few assets compared to the old and consistent borrowers. As was revealed by the clients who dropped out of the programme and came back and also by those who dropped out and were no longer clients of microfinance, the major reason to drop out was failure of their businesses especially due to emergency cases like illness of the household member in which case they use part or whole of their business capital. This suggests that there is relationship between the level of initial income of the borrower and microfinance impact. Thus microfinance might work better for those who are already better-off.

4.6.4 Microfinance Impact on Health

One of the challenges that face poor people is ill health, so the research also rotated around to how microfinance contributes to the health of the clients. Both individual and focus group results indicated that clients were able to go to the hospital in case of illness. In fact, all clients individually interviewed had already subscribed to Community Health Insurance commonly known as '*mituelle de santé*'. However, this enrolment results are questionable to whether they are the results of the microfinance itself or the big government's campaign on health. It became much more questionable to the researcher especially when they were no differences noted between the rural and urban clients and even across the clients (the old and new clients; (I considered new clients as those who had been in the program for two or less than two cycles).It was difficult to go beyond this investigation on this point since the study did not have a control group of microfinance non-participants for comparison.

In regard to meeting the family's food needs, most respondents' answered that they were able to provide for the family's food needs. However, differences were noted between rural and urban clients. Some rural clients/respondents' said that it was difficult for them to be certain of food the whole year around especially during non-harvest seasons when prices hike. To their urban counterparts, this was not a big challenge. However, whether this food is nutritious is another issue that needs further investigation and/ or research.

Generally the respondents' hailed microfinance programme to have assisted them get incomes which positioned them better to meet their health and nutritional needs.

4.6.5 Education of children

According to the interviewed respondents', majority of them said that they were able to pay their children school fees and buy them school requirements like uniforms and books. One respondent said '*she received her loan from UOMB which she used to buy a business bicycle for the husband and used remaining portion to expand her petty trade. Her husband makes a profit of average 20,000frws per month; she also gets profits from her petty trade and out of these businesses they have managed to send their children to school. She reports that she has no difficulty in repaying the loan and would like to continue in the microfinance programme to expand her activities. With her increasing incomes, the family's diet has improved. Whereas she previously failed to buy milk for her children, it has now become part of their daily breakfast and dinner"*

However, though the respondents' generally positively said that they were able to fund their children education, when the researcher probed up to what level of education, few answered that they can manage to take their children to secondary school. Where as the primary level education is cheaper and usually the children go to school and come back home to help on domestic cores, the secondary school education is comparatively expensive and needs the children to stay at school. The primary education is not only cheap but also does not need the family to hire a house maid as the children go to school and come back in the day to help the family on most activities. This suggests that microfinance benefits might not be enough to impact on education at all levels .Interview findings do not show any bias to particular sex in sending children to school.

4.7 Challenges in reaching the poor

This section answers the fifth sub question which is set to investigate into the challenges in reaching the poor with microfinance in Rwanda.

4.7.1 Client Related Barriers/Self exclusion

Findings from the interviews held with the officials of UOMB indicate that the poor people in Rwanda still lack credit and savings culture. They feel afraid of taking loans to start new businesses and therefore end up excluding themselves from microfinance. This is in line with the findings of the individual interviews done with clients in which some of them said they were not willing to take up larger loans and hence remained getting smaller loans.

To buttress this point, Fisher and Sriram (2002) points out that Poor people are excluded not only by better off members, but they also exclude themselves. They are afraid that they will not be able to save regularly, their poverty means that they lack profitable investment opportunities, and they may also not be able to attend meetings regularly. Develtere and Huybrechts (2005) in the same view agree that the bottom poor often consider the loan to be too risky. Having few assets and fearing an even greater burden of debt, they do not want to take part in a micro credit scheme (ibid)

In this regard, although UOMB has not been able to reach the majority of the poor, some potential clients also exclude themselves from microfinance. In the researchers view, this shouldn't be considered as a failure on the part of the institution but as an indicator that microfinance is not necessarily the way out for all the poor.

4.7.2 Program Related Barriers

a) Transaction Costs

Majority of poor people in Rwanda live in rural areas. Interview with Urwego officials pointed to the point that reaching the most remote rural areas of the country entails high transaction costs. Dispersed and uneven demand, high information and transaction costs because of poor infrastructure and lack of client information. This deters the institution from reaching such areas. Despite that UOMB has tried to open up sub offices and centres near to the communities, it is still problematic to reach the very remote areas that have less or no access to infrastructure like roads. It's equally very costly to facilitate the loan officers to reach such places. This also coupled with the seasonality of the productive activities in the rural areas with associated risks. Majority people are farmers with subjection to risks of weather, pests and price fluctuations. The issues of reaching the poor and MFI sustainability/covering operational costs become complicated issues to reconcile.

b) Lack of support from the local administration

The officials of UOMB also pointed to the challenge that they lacked strong support of the local (sector) administration that looked at microfinance programs as any other business sector rather than being a pro-poor and development tool. This finding tallied with the findings from individual interviews with the clients who complained of the charges by the sector (local government) administration in their process of forming the groups and getting the loans. Interviewees revealed that they have to pay a fee of 2000 Frws to process their documents which have to be filled and approved before they get loans from the microfinance institution.

c) Inadequate funds

Inadequate Funds also poses a major constraint in the expansion and reach of the microfinance program to the poor. An analysis of UOMB shows that while the poor are many with varied needs, it's very difficult to reach all the poor with microfinance especially the loans and again its similarly troublesome to design the product packages that would fit into the needs of all the poor. These findings relate to those of the research done by CFSI[5] across the global in which most African practitioner respondents' were concerned about the scarcity of funding for microfinance. Findings of this study indicate that men have always been pushed back in case they needed to join the groups for the loans. Men are not supposed to constitute more than 10% of the group. However, exclusion of men needs investigation whether it's related to lack of enough loans for all the poor by the institution or if it's related to the repayment aspect. Experiences from various researches done else where have shown that women have been the focus of microfinance because of high repayment portrayed by them compared to men. Moreover, the findings of this study have indicated that men have helped their wives to repay the loans.

[5] CSFI is a non-profit think-tank, established in 1993 to look at the future developments in the international financial field (CSFI,2008)

Chapter Five
Conclusion and Policy Implications

The study aimed at analysing the role of microfinance in poverty reduction in Rwanda. Specifically was to investigate into the inclusion of the poor, the nature of products and services, outreach and impact and challenges in reaching the poor.

The evidence surveyed in this study suggests that the conclusion from early literature, that microfinance may have had positive impact on poverty but is unlikely to be a simple panacea for reaching the core poor, remains broadly valid. Reaching core poor people seem a very long way to go, and some of the reasons that made them difficult to reach with conventional financial instruments mean that they may also be high risk and therefore unattractive microfinance clients.

The tentative inference drawn from this study is that Microfinance in Rwanda is effective at reaching the poor but not the poorest and that other anti-poverty modalities need to be brought into play when tempting to reach the poorest. Though the results of this study may not generalise to all Microfinance Institutions, we notice little differences in the practices and organisation of MFIs in Rwanda.

As Maanen (2004) states, there are more potential clients at the bottom of the pyramid than graduates potentially capable of crossing over into the formal sector. True, these potential need support but the emphasis of microfinance as an 'industry' should be deeper down the pyramid: enabling people below the poverty line to cross that line.

The results of this study have indicated that microfinance program has only targeted the so coined 'active people-with petty businesses' who in the Rwanda context form the richest poor just close to the poverty line. Microfinance has not been able to reach the poorest at the bottom of the poverty line and therefore the claims that it will reduce poverty for the majority poor remains a mere myth.

However, it's worth noting that, UOMB has reached a number of poor people who previously had been excluded from the formal banks. The programme has been successful in reaching the poor especially women who have not been served by the traditional financial institutions and findings indicate that it has reduced poverty among the borrowers. Despite the fact that these women are not the poorest of the poor, Kabeer (1996) cited by Johnson and Rogaly (1997) argues that all women-whether poor or not suffer discrimination in the market and thus important to ensure that women can obtain loans provided by intervention agencies.

Also, it is important to recognise that, UOMB by introducing different types of loans and charging different interest rates and by customising loan terms and conditions for the different loans, it has been able to encourage more successful borrowers to expand their enterprises. For instance, the borrower with the solidarity loan can as well have access to a home improvement loan. The MFI also besides group-based lending program has recently introduced individual lending for long term borrowers with excellent repayment records. This will enable microfinance borrowers to easily graduate to formal banking system in future. However, the study findings indicate that microfinance was likely to have greater positive impacts in urban than in the rural and this suggests differences in opportunities, poverty levels and microfinance products appropriateness.

From the study, the following suggestions are devised to make microfinance more effective as a tool for poverty reduction.

MFIs should have broader target group including the ones in the extreme poverty. Moreover, according to Rwanda Microfinance Policy microfinance services should be available to all sections of the community, particularly to the poorest and most vulnerable members of society. (Rep. of Rwanda 2006)

The design of products and services should also be made flexible to reflect the needs of the poor. As was found out by this study, microfinance is most directed to income generating activities, or delivered to those who have existing businesses, street trade or physical collateral. This excludes a large majority of the poor people who would need the products and services and cannot afford this collateral. It's thus important to mention that there is need to improve the design and outreach and to see MFI as part of the package for targeting the poor.

The credit delivery mechanism (group lending with a weekly repayment schedule) can be effective in reaching a large number of small producers but cannot reduce poverty on large scale. The poor engaged in agriculture for instance would need a loan that would be paid when their harvests are ready. This suggests that microfinance products and services should be best tailored to the diverse needs of the poor people and the poor should not be looked at as a homogeneous group of people. Products should as well be contextualised taking into account rural-urban differences

To sum it up, microfinance is not a 'magic" bullet for poverty reduction and the increasing government's and aid agencies' emphasis on microfinance as a panacea to poverty may be an oversimplification of the matter. This drives me to arrive at the same conclusion as Irmi in the paper 'working her Way Out of Poverty' who underscores that 'as long as micro-enterprise development is offered as a substitute to meaningful social development….it will only impede progress towards finding real answers to the very real problem of poverty' (Irmi, 2000).The study findings indicate that MF alone cannot meet the needs and resolve a wide range of difficulties of the poor. There is need for infrastructure developments for remote areas and need to improve market potentials. Just like Fisher and Sriram (2002) points out micro financial services are not going to solve poverty, but can only serve as a complementary tool within a broader strategy to reduce poverty.

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APPENDICES

Appendix 1 Clients Respondents' profile

Table 3
Clients Respondents' profile

Beneficiary ID	Sex of the respondent		Location of the respondent		Current Loan size (FRWs)	Loan usage/Activity
	Male	Female	Rural/Gahini	Urban/Nyamirambo		
1		F	X		50,000	Petty business shop
2		F	X		75,000	Second hand clothes business
3	M			X	200,000	Agricultural produce
4		F		X	50,000	Sells Fruits
5	M			X	150,000	Shop business
6		F		X	100,000	Tailoring
7		F	X		65,000	Shop business
8		F	X		85,000	Agriculture produce
9		F	X		75,000	Shop business
10		F		X	180,000	sale agric produce
11		F	X		75,000	Bicycle
12	M			X	150,000	Business shop
13		F		X	300,000	Business Shop
14		F		X	150,000	Shop business
15		F	X		65,000	Agriculture produce
16		F	X		70,000	Second hand clothes
17	M		X		100,000	Business Shop
18		F		X	300,000	Business Shop
19		F		X	250,000	Business Shop
20	M			X	150,000	Business Shop
21		F	X		80,000	livestock
22		F	X		75,000	Agricultural produce
23		F	X		60,000	Agricultural produce
24		F	X		50,000	Agriculture produce
25		F	X		100,000	livestock
26		F		X	65,000	Sales fruits
27		F	X		50,000	Petty business shop

Source: Field Data