

Country Survey:

# RWANDA



Key Facts : Microfinance in Rwanda				
By CGAP <sup>1</sup>	No. of MFIs	No. of Borrowers	Borrowers Population <sup>a</sup>	Borrowers/Poor <sup>b</sup>
	4	131,000	1%	2%
By MIX <sup>2</sup>	No. of MFIs reporting (2010)	No. of Active Borrowers	Gross Loan Portfolio (USD)	Average Balance per Borrower (USD)
	8	69,829	27.3 million	381
By MFT <sup>c</sup>	No. of MFIs (2010)	No. of Active Borrowers	Gross Loan Portfolio (USD)	% Products with a Flat Interest Rate
	14	142,702	94.7 million	51%

## Country Overview

Sitting just south of the equator, the Republic of Rwanda is a landlocked country of 26,300 km<sup>2</sup>. It shares its borders with the Democratic Republic of Congo, Uganda, Tanzania and Burundi. Despite being the second smallest country in Africa, Rwanda is one of the most densely populated countries in the continent, home to a population of 11.4 million. The largely rural population is formed of three groups, the Hutu, Tutsi and Twa.

## Political Overview

After a series of political instabilities, Belgium granted full independence to Rwanda on July 1, 1962. The 1990s was a violent decade in the history of Rwanda, a period from which the country is still recovering. Ethnic tensions between the dominant Tutsi minority and majority Hutus had been building for many years. In 1990, the Rwanda Patriotic Front (RPF), formed by Tutsis exiles, invaded Rwanda from Uganda. Widespread violence erupted after the assassination of President Habyarimana in April 1994, and during the three following months more than 800,000 people were killed. By mid-July, the RPF forced the Rwandan army and the Interahamwe militia out of the country, which brought the war and the genocide to an end. This devastating event shocked the world and left an indelible mark on Rwandan society. A new constitution was adopted by referendum in 2003.

During the years following the genocide the government of Rwanda has attached considerable weight to reconciliation, and a series of economic reforms and reconstruction efforts have been conducted. The reconstruction process, backed by foreign aid through loans and grants, has been focused mainly on education, health, governance reform and

<sup>a</sup> MFI borrowers as a percentage of the country's overall population

<sup>b</sup> MFI borrowers as a percentage of the poor population based on national poverty rates

<sup>c</sup> This row of the table is populated with data from MFTransparency's *Transparent Pricing Initiative in Rwanda*

infrastructure rehabilitation. This has resulted in the improvement of various economic and social indicators. According to the World Bank's Governance Indicators, government effectiveness, regulatory quality, rule of law and control of corruption have improved from 1996 to 2010<sup>3</sup>. Recovery of the Rwandan economy has been exceptional with the country being regarded as *"the biggest success story out of the continent"* according to a CNN article in 2009<sup>4</sup>. After a spectacular post-genocide economic boom, national income has continued to rise steadily<sup>5</sup>.

The country is a presidential republic which is based upon a multi-party system. Since his rebel army ended the slaughter of thousands of people in 1994, Paul Kagame has been in control of Rwanda. He was elected president in 2000 and in August 2010, he won a second term with 93% of the vote<sup>6</sup>. Although the country has achieved peace, there are increasing concerns about the repression of political opponents and the lack of independent media. In its 2010 Press Freedom Index world ranking, Reporters without Borders listed Rwanda in 169<sup>th</sup> place out of 178<sup>7</sup>.

## Macroeconomic Overview

Rwanda is a landlocked country with few natural resources and minimal industry. Despite this Rwanda was named the world's top reformer in the World Bank's Doing Business Report 2010. It has experienced high growth rates with significant rises in infrastructure, international investment and in tourism<sup>8</sup>.

GDP – composition by sector:	
<b>Agriculture</b>	34.2%
<b>Industry</b>	14.5%
<b>Services</b>	51.3%
Annual Trade:	
<b>Imports</b>	1,479
<b>Exports</b>	534
Source: 2009 figures World Bank <sup>11</sup>	

With agriculture representing 34% of Gross Domestic Product (GDP) Rwanda essentially has a subsistence economy<sup>9</sup>. However, the country is faced with several natural constraints to agriculture such as soil erosion and occasional droughts. GDP growth outside of the agricultural sector is mainly attributed to construction, financial services and import and export activities. Rwanda's primary exports are coffee, tea pyrethrum

and minerals (tin and cassiterite). The major export markets include China, Germany and the United States, however Rwanda records a trade deficit. Its main imports items are food products, motor vehicles, fuels, textiles and machinery, imported mainly from Belgium, Kenya, France and Germany. Trade virtually ceased during 1994 and has been recovering very slowly since then.

Despite the devastating impact of the genocide, Rwanda's economy is back to pre-1994 levels, although poverty levels are higher now. The government successfully implemented a broad program of economic reforms, focused on the exchange and trade regime, the privatization of some state enterprises, the reform of public administration, budget and financial management, and private sector development. Rwanda continues to receive substantial aid money and was approved for IMF-World Bank Heavily Indebted Poor Country (HIPC) initiative debt relief in December 2000.

GDP and Inflation				
Year	GDP (PPP)*	GDP Growth	Inflation	GDP Per Capita (USD)
2007	9.5	5.5%	9.1%	385
2008	10.8	11.2%	15.4%	471
2009	11.4	4.1%	10.4%	510
2010	12.4	7.5%	2.3%	529
*Billion USD, 2010 figures, Source: World Bank <sup>10</sup>				

The double digit inflation seen in Rwanda in the last 2010s resulted from rising prices in the wake of the global financial food and energy crisis<sup>11</sup>. Inflation in December 2011 was 8.3%, and projected by the International Monetary Fund (IMF)

to reach 7.5% by December 2012. The IMF has predicted economic to slow in 2012 from its estimated 8.8% growth in 2011<sup>12</sup>.

Close to 90% of Rwandese are engaged in agriculture, the majority of who are subsistence farmers growing coffee, tea, bananas, and a variety of other crops. With this dependency on subsistence agriculture there is very limited participation in the exchange economy. Productivity is low, and production covers only 80% of Rwanda's food needs. Like most post-war economies, economic growth and social changes are severely constrained by the shortage of skilled people, and Rwanda is making significant investments in order to address this.

The Government of Rwanda welcomes and encourages foreign investment facilitated by the Rwanda Investment and Export Promotion Agency (RIEPA)<sup>13</sup>. The success of investment promotion efforts are constrained by several factors, including the limited rural development and agricultural transformation, limited access to finance, a negative perception of Rwanda from abroad, low levels of domestic private savings and investment as well as low purchasing power of the population. However, new opportunities for investment are emerging in the economy, particularly in the areas of agro-processing, mining, energy generation, transportation, tourism, horticulture, ICT, banking and finance.

### Poverty in Rwanda

In 2006, the World Health Organization pointed out that despite a decade of rapid economic growth Rwanda was still one of the poorest countries in Africa, with the majority of people living below the poverty line. While Rwanda's economic situation has been improving over the past decade, most Rwandans are worse off today than in the late 1980s, especially in rural areas. This can be largely attributed to the impact of the genocide, which left many people vulnerable. A third of households are headed by women and one million children, 12% of the total population, were left as orphans, cared for by impoverished family or community networks.

Key Poverty Figures	
Human Development Index	Rank 166
Income GINI coefficient	53.1
Income (GNI per capita in PPP terms \$)	1,133
Pop. below \$ 1 a day	20%
Pop. below \$ 2 a day	45%
Sources: Human Development Report 2011 and Earth Trends <sup>14</sup>	

The 2011 Human Development Index (HDI) ranked Rwanda among the least developed countries, at 166<sup>th</sup> of 187 countries<sup>15</sup>. However, Rwanda recorded one of the world's highest increases in HDI from 1980 to 2010 thanks to the significant improvement of the social and economic indicators of the country. According to the National Economic Development and Poverty Reduction Strategy (EDPRS) poverty remains disproportionately a rural phenomenon<sup>16</sup>. Inequality, as measured by the Gini coefficient has risen from a 28.9 in 1985 to 53.1 in 2011<sup>17</sup>.

An estimated 3% of adults in Rwanda have HIV, with an estimated prevalence of one in four adults in the capital Kigali<sup>18</sup>. The Rwandan government has shown a strong will to fight HIV/AIDS, and in 2000 instigated a multi-sectorial National AIDS Control Program. A Centre for Treatment and Research has also been set up, as well as programs to sensitize the population towards HIV/AIDS. All sectors of society (public sector, private sector, civil society, religious communities etc) have engaged in the fight against HIV/AIDS<sup>19</sup>.

Rwanda's long-term vision, as inspired by its "Vision 2020", is to reduce the proportion of Rwandans living below the poverty line from 60% to 25% and to raise per capita incomes from \$250 to above \$1000<sup>20</sup>. The Rwandan government has become very interested in microfinance and recognizes that a strong sector is crucial to meet their Poverty Reduction Strategy Paper (PRSP) development goals. Optimism over the role of microfinance as a poverty reduction

intervention in Rwanda is increasing. Microfinance and trade is considered to have played a key role in building peace and reconciliation as Rwanda continues to recover from the genocide<sup>21</sup>. Some spillover effects of microfinance activities in Rwanda have included increased agricultural production and the consequent improved household nutritional status. Microfinance has also been credited with causing the enhancement of knowledge and skills in families to resolve problems, manage projects, and participate in cooperative organizations<sup>22</sup>.

## Traditional Financial Sector

Rwanda's traditional financial sector is considered to be relatively shallow and undiversified. The sector is dominated by banks, of which there are fourteen licensed by Rwanda's central bank - the Banque Nationale du Rwanda (BNR)<sup>23</sup>. Relatively high lending rates prevail in the sector, along with poorly functioning payments systems. Other characteristics are the scarcity of insurance services, the low availability of long term debt and mortgages, and the limited regulation in the area of pensions and insurance<sup>24</sup>. The government of Rwanda considers financial sector development to be a high priority, seeking to expand access to credit and financial services, enhance savings mobilization, and mobilize long term capital for investment. These objectives are seen as integral to Rwanda's plans for transformation to a middle income country.

The domestic saving ratio in Rwanda is very low which, at only 3% of GDP, is one of the lowest in Africa. According to the IMF, *"the provision of financial services other than by the commercial banks is limited, with the exception of a credit cooperative network (Union de Banques Populaires-UBPR). Other specialized financial institutions include the state-owned development bank Banque Rwandaise de Développement (BRD) and a mortgage bank Caisse Hypothécaire du Rwanda (CHR)"*<sup>25</sup>. The Rwandan financial sector, as in most developing countries, has not traditionally served the lower end of the market. Measured in terms of broad money to GDP, the financial sector depth is 17% which is low compared to other sub-Saharan countries. Credit financing remains concentrated in Kigali and to a limited number of sectors, particularly trade and manufacturing.

The Banque Nationale du Rwanda's (BNR) objectives are to control inflation, stabilize the financial sector, and to update and secure the payment system<sup>26</sup>. To do so, it plans to diversify and improve the efficiency of financial services, and to create an institutional framework for increased mobilization of savings for the financing of investments. It plans to use information technology for the modernization of the payment systems, so as to increase their integration both regionally and internationally. The BNR engages heavily in banking supervision, of both traditional banking and microfinance institutions, and is responsible for the legislative framework regulating the microfinance sector and its enforcement.

## Microfinance Sector of Rwanda

### Introduction

With Rwanda having one of the lowest savings ratios in Africa and with just 10% of the population owning a bank account, the microfinance sector has a crucial role to play in providing financial services. Informal finance initiatives have existed in Rwanda for some time, such as small self-help peasant organizations (*tontines* and *ibimina*) used for agriculture, cattle breeding and the purchase of domestic equipment. The microfinance sector is however relatively young. Microfinance was first formalized with the creation of the first Banque Populaire in 1975 by the Rwandan and

Swiss governments. A few years later, the various Banques Populaires initiated in the country formed a Union des Banques Populaires (UBPR)<sup>27</sup>.

Prior to the genocide of 1994, the microfinance sector had experienced slow growth. Following the genocide, large inflows of donor funds were directed into relief orientated microfinance initiatives, stimulating the growth of the sector. In addition, as part of its reconstruction phase, the Rwandan government provided credit lines and grants to the microfinance sector. The fast and chaotic growth that followed caused several unintended problems, including “*a weak culture of loan repayments*” according to the author of the National Microfinance Policy Implementation Strategy. The need for greater consolidation within the sector led the government to initiate a reform of the financial sector in 1995. A decade later, in June 2005, Rwanda had around 230 institutions engaged in microfinance activities (149 of them were Banques Populaires)<sup>28</sup>. However, due to corruption scandals, the lack of good practices amongst microfinance institutions (MFIs) and the poor management of funds, nine microfinance institutions were closed in June 2006. In 2008, the microfinance sector counted a total of 125 MFIs in the country. This number included 111 financial cooperatives, 11 société anonymes (SA) and 3 limited liability companies<sup>29</sup>. The sector is characterized by the concentration of institutions in urban and semi-urban areas, to the detriment of financial inclusion in rural areas.

Unfortunately, the growth of Rwanda’s microfinance industry is impeded by thousands of borrowers who have failed to service their loans, contributing to the high percentages of non-performing loan portfolios seen in Rwanda’s MFIs. Research has shown that the poor levels of loan repayment are due to the clients diverting loan funds to meet their personal needs instead of using them for the proposed investment, hampering the ability of MFIs to perform well<sup>30</sup>.

## Microfinance Institutions

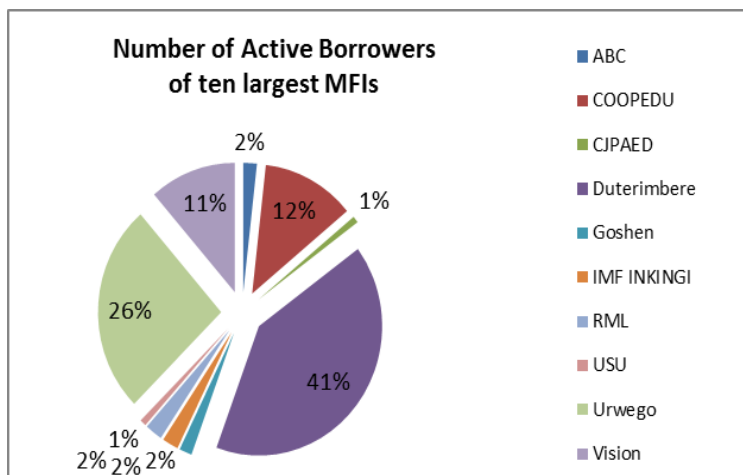
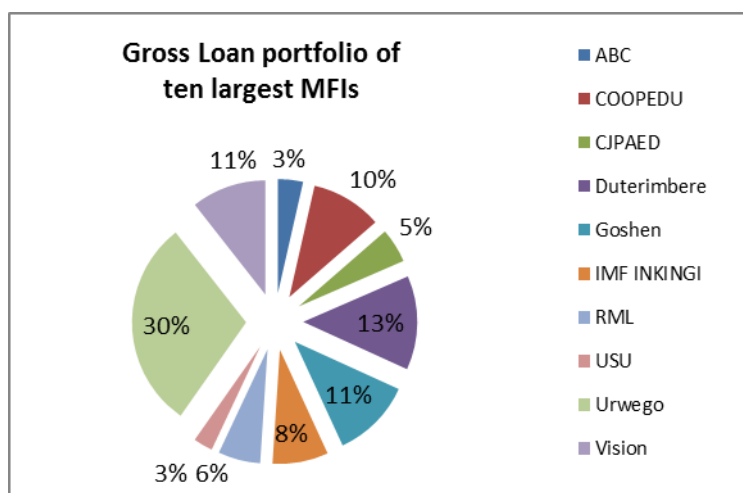
Savings and credit cooperatives are the most numerous financial institutions in Rwanda. Many institutions operate under the cooperative status but, according to the BNR, very few of them are actually meeting the cooperative membership requirements. Union des Banques Populaires du Rwanda (UBPR) is the most significant cooperative which also serves 36% of the total microfinance market and holds 60% of its deposits and loans.

Despite what appears to be a fairly enabling environment, only 0.3% of the population has access to non-governmental organization (NGO) microfinance services<sup>31</sup>. A few micro-lending programs launched by NGOs in recent years have successfully grown their loan portfolios. The two largest, Urwego (sponsored by World Relief) and Vision Finance (sponsored by World Vision) have demonstrated that small group lending programs (like Opportunity International’s “*Trust Banks*”) can work effectively in the densely populated, rural environment of Rwanda. Urwego has the broadest geographic outreach of any MFI in Rwanda and serves as one of the largest providers of microcredit serving.

The following diagrams display the market shares of the ten leading MFIs in Rwanda according to data from MFTransparency’s 2010 *Transparent Pricing Initiative in Rwanda* and the Mix Market’s website.

Microfinance Institution	Number of Active Borrowers	Gross Loan portfolio (national currency)	Reports to MIX (2009)	Participated in MFTransparency Pricing Initiative (2010)
Amasezerano Community Bank	2,225	747,483,674	Y	Y
COOPEDU	15,283	2,111,647,837	Y	Y
Coopérative de la jeunesse pour d auto d'emploi et de développement	1,049	1,022,162,074		Y
Duterimbere	51,000	2,793,628,305	Y	Y
Goshen Finance	2,076	2,378,245,166		Y
IMF INKINGI	2,648	1,659,754,210		Y
Rwanda Microfinance Limited	2,858	1,255,802,510	Y	Y
Union of Savings and Credit Cooperatives	1,031	576,723,471	Y	Y
Urwego Opportunity Bank	32,690	6,225,428,134		Y
Vision Finance Company	14,226	2,223,773,287	Y	Y

Source: MFIs according to MFTransparency data 2011 & MIX data 2010



Urwego is a major player on the Rwandan microfinance market. Created in 1997, as part of the World Relief program, its goal was to alleviate poverty by providing credit, savings, and training services to poor micro-entrepreneurs. In Kinyarwanda, “*urwego*” stands for “*ladder to success*”. In 2007, Opportunity International, World Relief and HOPE International merged their operations in Rwanda to open Urwego Opportunity Bank (UOB). Based on MIX’s data for 2010, UOB was serving over 30,000 borrowers with an outstanding portfolio of 6.4 million dollars.

Vision Finance Company (VFC) is the third largest MFI reporting to the MIX in 2010, in terms of both the number of active borrowers and gross loan portfolio. Created in 1999, Vision Finance is an affiliate of World Vision International, licensed by the BNR in 2004. Its goal is to provide services that encourage holistic transformation in the lives of Rwanda’s economically productive poor, through the development of sustainable economic microenterprises.

Duterimbere was established as a microfinance program targeting mainly women in 1991. The organization’s goal was to provide women with loans and business training. In 2004, Duterimbere MFI was created. Although not represented in MIX dataset for 2010, Zigama Credit and Savings Society (Zigama CSS) is a leading Rwandese cooperative created in 2007 to meet the needs of the employees of the Ministry of Defense<sup>32</sup>. It is now offering a variety of savings and credit products to all Rwandans and servicing over 60,000 members, of whom 49,076 were active borrowers as of January 2007<sup>33</sup>.

Le Réseau Interdiocésain de Micro-finance (RIM SA) was established in 2004 by Bishops of the Rwanda Catholic Church, pulling together the parish and diocesan banks undertaken by Caritas since 1998. Based on the Rwanda Microfinance Sector Assessment 2005, RIM served 50,000 clients with loans. RIM was not represented in the 2010 MIX dataset but stands as a major institution, well rooted in the twelve provinces of Rwanda.

### **National Microfinance Network – *The Association of Microfinance Institutions in Rwanda (AMIR)***

The Association of Microfinance Institutions in Rwanda (AMIR) was created in June 2007 with the mission of “*Providing diversified services to microfinance institutions in order to enable them to work professionally and effectively contribute to poverty reduction in a sustainable way*”<sup>34</sup>. Located in Kigali, it serves microfinance institutions in five provinces of the country. According to its website, as of 2011 AMIR consists of 84 member institutions, (the majority being savings and credit cooperatives) serving 655,000 clients.

Following its creation, AMIR was assigned with a portion of the Ministry of Finance and Economic Planning strategic plan. AMIR is governed by a General Assembly, a Supervisory Board and a Board of Directors. An Executive Secretariat, reporting to the Board of Director, is responsible of AMIR’s operations and management. All microfinance institutions can become members of AMIR provided they are registered by the BNR amongst other eligibility criteria. AMIR offers a variety of services to its members, including policy and advisory services, research and product development, and capacity building. It also offers programs focusing on training, skills development and technical assistance to facilitate the adoption of good practices.

### **Funders and Donors**

A number of investors and donors are supporting microfinance institutions in Rwanda. According to the GCAP cross Border Funding Survey of 2010 Rwanda had seven active public funders (UN agencies, multilateral and bilateral agencies

and Development Finance Intuitions) and four active private funders (foundations and NGOs). These were the African Development Bank (AfDB), the Canadian International Development Agency (CIDA), the European Commission, the International Fund of Agricultural Development (IFAD), the German Development Bank Kreditanstalt für Wiederaufbau (KfW), the Norwegian Agency for Development Cooperation (Norad), the World Bank, ICCO, MasterCard Foundation, Oxfam Novib and Rabobank Foundation<sup>35</sup>. Other funders active in the country include World Relief, Opportunity International, DID, Hope International, Terrafina and Vision Fund.

## Microfinance Regulation

Like most countries in sub-Saharan Africa, Rwanda has followed the economic liberalization program. It has privatized the financial sector to reduce financial repression; encouraged market determined prices of financial services and enhanced market competition. The Government of Rwanda launched the Financial Sector Development Program (FSDP) in 2006. This program envisions the development of a stable and broad financial sector that is capable of sufficiently mobilizing and allocating resources to address the development needs of the economy<sup>36</sup>.

The financial sector's overall legal and regulatory framework was initiated in July of 1997, with instruction n° 11/1997 establishing the BNR. The microfinance sector's legal and regulatory framework was initially developed with the assistance of the Canadian Embassy in Rwanda. In 1999, the banking law n° 08/99 was enacted, assigning the responsibility for MFI supervision to BNR. This law excluded international aid and cooperation organizations, international financial institutions and insurance companies. In 2002, BNR adopted instruction n° 06/2002 regulating microfinance activities for MFIs other than savings and credit cooperatives (SACCOs) and introducing minimum standard requirements. The following year instruction n° 05/2003 was issued specifically for SACCOs, the most common type of microfinance institution in Rwanda. The BNR began the licensing process of institutions in 2004 and organized with the Ministry of Economy and Finance an awareness campaign about the application and approval of all MFIs at the national level. Most recently, in 2009, a new law n° 40/2008 establishing the organization of Microfinance activities was published in the Official Journal. This law provides four categories of institutions and their related obligations<sup>37</sup>:

1. The first category consists of informal microfinance institutions (such as tontines). These institutions are not subject to licensing by the BNR.
2. The second category includes savings and credit cooperatives with a value of deposits below 20 million Rwandese Francs. These institutions have to comply with simplified prudential norms defined by the BNR.
3. The third category of institutions refers to limited corporations with a total value of deposits equal or higher than 20 million Rwandese Francs. These institutions are required to operate under the rules and prudential norms defined by BNR.
4. The fourth category consists of all microfinance institutions that are non deposit-taking and operating as a limited company or limited liability company. As the second category, they have to comply with simplified prudential norms.

According to the Rwanda Microfinance Sector Assessment conducted in 2005, *“Recently, the country enacted some of Africa’s most progressive microfinance legislation and regulations. The purpose was to encourage the extension of financial services to the country’s poorest citizens while ensuring the financial solvency and viability of the institutions”*<sup>38</sup>. The objectives of the national microfinance policy, drafted by the Ministry of Finance and Economic Planning, supports



the development of strong microfinance institutions that offer viable financial services adapted to meet the needs of their market. The policy also aims to develop an institutional framework for the coordinated development of the sector, increase the financial and investment capacity for those who would otherwise not have access to financial services and support the development of national microfinance expertise. However, the author of the Rwanda Microfinance Assessment has critiqued the development of the national policy, stating that *“the exercise was not one of broad stakeholder participation, like in other countries, a process critical to any sound microfinance sector development.”*<sup>39</sup>

## Consumer protection

In 2011 the Rwandan House of Parliament passed the long awaited Consumer Protection and Competition Bill. This legislation sets disciplinary measures for any company which breaches consumer rights or infringes upon competition principles. The Ministry of Trade and Industry works on creating awareness amongst both consumers and business owners of consumer principles and offers a hotline service for enquires related to consumer rights<sup>40</sup>. Competition in Rwandan microfinance sector is intense as MFIs, COOPECs and SACCOs vie over the same market, concentrating on urban and semi-urban regions of the country. This has resulted in poor credit collection practices and client over-indebtedness, negatively impacting upon consumer rights. The new consumer protection act is expected to play a pivotal role in increasing the awareness and protection of poor households. Several internationally recognized initiatives, such as the SMART campaign and MFTransparency, are working in strategic partnership with the AMIR to promote the incorporation of the client protection principles in the core business of AMIR’s member institutions.

## Mobile banking

Following the success of M-Pesa in Kenya, mobile banking services in East Africa are growing steadily. Although Rwanda has been slow to embrace mobile banking as compared to its neighboring countries, mobile banking is now becoming increasingly important in the provision of basic financial services to Rwanda’s rural populations. In 2010, MTN Rwanda became the first network provider to launch a mobile money service. It had more than 190 agents covering 90% of the total population in the country<sup>41</sup>. Banque Populaire du Rwanda (BPR), FINABANK, Rwanda Commercial Bank, Urwego Opportunity Bank and the Bank of Kigali are some of the biggest banks that have currently integrating mobile banking service into their core operations. In the coming years mobile banking is expected to significantly impact upon the Rwandan microfinance sector’s provision of low cost and convenient financial services.

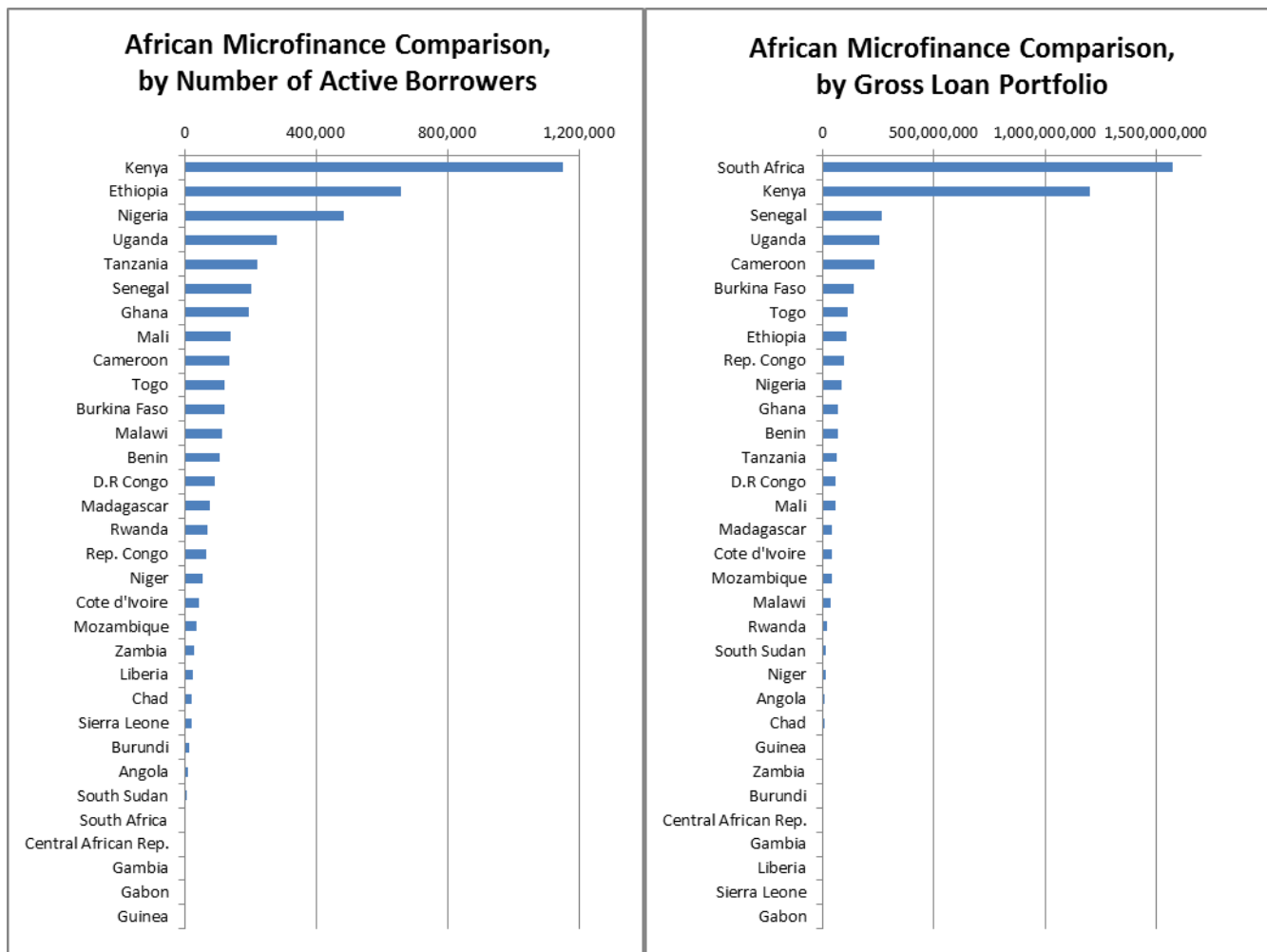
## MFIs Ratings and Reporting

Only seven MFIs in Rwanda out of the 84 members of AMIR have undergone ratings assessments from internationally recognized ratings agencies. These are shown in the table below. Of all the MFIs that submitted data to the MIX, only one, Rwanda Microfinance Limited, has submitted a social performance report. This social rating, led by MicroRate, assessed the social performance of the MFI using 22 core indicators, providing information on the MFI’s social return and social commitments.

MFI	Rating Agency	Rating	Report Date (most recent)
<b>Financial &amp; Operational Ratings</b>			
Amasezerano Community Banking	Planet Rating		2007
CAF Isonga	Planet Rating	D	2008
CFE S.A. Agaseke	MicroRate	β-	2007
Coopedu	Planet Rating	C	2008
Duterimbere SA	Planet Rating	C-	2008
Rwanda Microfinance Limited (RML)	Planet Rating	C++	2011
Unguka	MicroFinanza Rating	BB+	2011
<b>Social Ratings</b>			
Rwanda Microfinance Limited (RML)	MicroRate	15	2008

### Rwanda and Microfinance in Africa

Data from The Mix Market in 2010 showed the African microfinance sector as having 4.5 million borrowers and a gross loan portfolio of \$4.6 billion<sup>42</sup>. In terms of scale Rwanda ranks medium to low both in terms of gross loan portfolio size and number of active borrowers. Rwanda has Africa’s 16<sup>th</sup> largest microfinance industry in terms of number of active borrowers and the 20<sup>th</sup> largest out of 32 countries in terms of active borrower numbers.



## Challenges for the Rwandan Microfinance Market

The Rwandan microfinance sector faces a number of challenges in its development. One of the most prominent issues facing the sector is the poor credit culture developed amongst both urban and semi-urban microfinance consumers. This poor credit culture has been attributed to the influx of donations after the 1994 conflict, the legacy of which still impacts the sector today. Credit-lending was confused with donations, leading to mass default behavior. This situation was aggravated by the lack of clear guidelines available amongst the international donor community regarding the management of microcredit programs. This poor credit culture and the weight of the resulting non-performing loans have tested the sustainability efforts of many of Rwanda's microcredit programs.

Limited institutional capacity is another challenge facing the sector. The presence of strong institutions is critical for an industry's success, and Rwandan microfinance institutions lack strong institutional capacity. For example, over 90% of Rwandan MFIs have no management tool when addressing strategic decision making, and more than 75% of Rwanda's MFIs operate using a manual management information system (MIS), using wires to meet their daily business information needs<sup>43</sup>. This impedes efforts to develop good portfolio quality, and has hampered the development of strong internal control systems and the application of sound business planning.

A further challenge in the Rwandan microfinance sector is the geographic concentration of MFIs in urban and semi-urban areas. More than 50% of Rwandan microfinance institutions operate in the southern and western provinces of the country, concentrated mainly in the major cities<sup>44</sup>. This has disrupted many of the access to finance efforts made by other development actors. This also presents a risk of over indebtedness amongst microfinance clients as MFIs compete over the same market. Recently however, a joint initiative undertaken by the BNR and the World Bank has been implemented to address this. A credit information bureau has been introduced to Rwanda, aiming to enhance the availability of real time client credit information and hence, foster healthy financial market in the country. Expectations are high as this credit information platform can also be effectively used by the microfinance sector.

Poor loan quality and high non-performing loans remain a challenge for the Rwandan microfinance sector. Just 13.7% of the MFIs in Rwanda are able to maintain portfolio at risk > 30 days ratio of less than 5%<sup>45</sup>. This situation has been exacerbated by a long history of mass default in certain parts of the Rwandan microfinance sector. This has affected the ability of the sector to operate profitably and maintain sustainability. The sector needs geographic and operational diversification to address the finance needs of Rwanda's population. Sector outreach needs to expand to rural areas, and undertake the market research and new cash flow lending methodologies required to do this.

Many of these challenges are being actively addressed by various actors in the microfinance sector. *MFTransparency*, along with several other internationally recognized initiatives, are working in Rwanda to help strengthen the sector and improve the delivery of responsible microfinance.

## About the Country Survey

The Country Survey resources are comprehensive literature reviews that outline the country-specific context for the data collected during the Transparent Pricing Initiatives. Each country has a unique set of circumstances defining the state of its microfinance market. The macroeconomic conditions, the political history, and the level of financial inclusion in a country are important factors characterizing the origins and future development of its microfinance market. An awareness of the country-specific regulatory environment for microfinance, as well as the involvement of other industry actors and industry challenges, is a valuable backdrop when considering a market's pricing data. Country Surveys are prepared by a team of talented interns working for MFTransparency, and should be viewed as a resource offering general contextual information for the Transparent Pricing Initiative in each country.

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