



*COLLEGE OF BUSINESS AND ECONOMICS*

*Master's Degree in Business Administration (Finance Option)*

***THE MICROFINANCE INSTITUTIONS AND ECONOMIC WELFARE OF THE  
UNDERPRIVILEGED GROUPS IN RWANDA***

***Acase study: Urwego Opportunity Bank Limited***

*THESIS PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION IN FINANCE*

***PREPARED BY: KARISA Celestin***

***Reg.No.217300804***

***SUPERVISED BY: NDIKUBWIMANA Philippe***

***KIGALI***

***July, 2017***

**DECLARATION**

I, **KARISA Celestin** declare that the work that is presented in this thesis titled **“THE MICROFINANCE INSTITUTIONS AND ECONOMIC WELFARE OF UNDERPRIVILEGED GROUPS IN RWANDA”** is my original work and had never been presented for a degree award in any University. It is produced for the award of master’s degree in business administration. I therefore, declare that this work is my research under the supervision of Dr. **NDIKUBWIMANA Phillipe** and had never been presented anywhere for the same. Where others work was used, it is indicated in the bibliography.

STUDENT .....

Signature .....

Date .....

SUPERVISOR .....

Signature.....

Date.....

## **DEDICATION**

I dedicate this thesis to my beloved family, for their limitless love, and support, to my brothers, fellow classmates, workmates, lecturers and administration of University of Rwanda and all my relatives.

May God reward your support of all kind.

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**MAY GOD BLESS YOU ALL**

## LIST OF ABBREVIATIONS

- ACB : Advanced Community Banking
- BRI : Bank Rakyat Indonesia
- CB : Community Banking
- CGAP : Consultative Group To Assist The poor
- FAO : Food Agriculture Organization
- GDP : Growth Domestic Product
- ICBA : Independent Community Bankers of America
- IMF : International Monetary Fund
- ISEW : Index of Sustainable Economic Welfare
- MDGs : Millennium Development Goals
- MFIs : Microfinance Institutions
- OIN : Opportunity International Network
- OIBR : Opportunity International Bank of Rwanda.
- RCBs : Rural Community Banking
- ROSCA: Rotating Savings and Credit Association
- SME's : Small and Medium Enterprises
- SPSS : Statistical Package for the Social Sciences
- UBPR : Unions Des Banques Populaires Du Rwanda
- UOB : Urwego Opportunity Bank Ltd
- UR : University of Rwanda

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## **ABSTRACT**

The general objective of this study was to examine the impact of MFIs on the economic welfare of underprivileged groups in Rwanda. Specifically, the study sought to analyze the extent to which services offered by UOB improve the economic welfare of underprivileged groups in Rwanda, examine extent to which underprivileged groups access to financial services offered by UOB and to find out the challenges faced by both parties customers during the accessibility of financial services by UOB in delivering these services. The study used descriptive survey design.

The target population was 46000 clients or beneficiaries of UOB MFIs financial services and the sample size was 250 clients chosen using simple random sampling technique. The researcher used Quantitative method of analyzing the data. The study revealed that UOB as microfinance institution has provided MFIs services to different groups of underprivileged “productive or active poor and the institution uses various strategies to deliver its services. The study recommends that MFIs should put in place measures in order to; reduce the costs of loans given to the underprivileged groups and improve the business skills of these groups through training and loan management, conduct surveys regarding market rates as to sell their products at a reasonable price that customers can afford, improve access to financial services, customers deposit their repayments to the nearest UOB’s partner banks and increase on the amount of loans to the beginners’/new customers to let them expand their businesses easily other than spending a year or more still on the same amount.

***Key words: Economic welfare, Accessibility to financial services, Capacity to refinance loans, availability of collateral, ability to save and invest.***

# **CHAPTER I: GENERAL INTRODUCTION**

## **1.1 BACKGROUND OF THE STUDY**

Many authors define the term underprivileged as where a person is not enjoying the same standards of living or rights as the majority of people in a society. While Merriam Webster, say that it is where people have less money, education and other privileges than other people in a society; having fewer advantages, privileges and opportunities than most people poor or disadvantaged. However, some indicators to measure the welfare are; Household composition, percentage of persons below the risk-of-poverty threshold, average and median incomes, excessive debt, long term un-employment and population in receipt of replacement incomes.

In the global arena, there is already the impression that MFI is successful in reducing poverty. Many policy makers are engaged on how to make many poor/underprivileged households in the future. Many stakeholders in the microfinance industry especially donors and investors argue that MFI can pay for itself and must do so if it is to serve very large numbers of poor/underprivileged households (Consultative Group, 2010).

The overall message is that unless MFI providers charge enough to cover costs, they will always be limited by scarce and uncertain supply of subsidies from governments and donors. Microfinance institutions are good for clients and therefore what is really needed is to make the financial services available to many poor /underprivileged groups as possible.

However, according to Robinson (2001) & Otero, (1999), microcredit and microfinance are relatively new terms in the field of development, first coming to prominence in the 1970s. Prior to then, from the 1950s through to the 1970s, the provision of financial services by donors or governments was mainly in the form of subsidized rural credit programs. These often resulted in high loan default, high losses and an inability to reach poor rural households (Robinson, 2001).

Microfinance institutions decide to transform to extend their services to larger numbers of low-income clients who do not have access to financial services. In addition to numerous other benefits of transformation that may not be explicitly identified as reasons to transform, becoming regulated generally results in increased professionalism and improved governance structures, leading to permanent institutions (Tejany, 2005).

Experience with MFIs transformation since 1990s, indicates a largely positive impact based on the performance and changes that have taken place in the majority of transformed institutions which have indeed widened their product range to include savings services, enjoyed increased access to loans and increased their outreach. These changes have had a very great positive impact/effect on the institutions and in turn significantly benefited their clients. Despite, Microfinance Institutions desire to transform and offer savings services as an additional service to clients, but also need to fund a larger volume of loans and access a stable and potentially cheaper local source of funds. Thus, access to capital therefore, includes accessing client deposits, commercial or concessional debt, as well as equity (AfriCap, 2003).

Savings mobilization can increase the number of clients served, improve loan repayment, stabilize sources of funds and improve governance of the MFIs. It is in fact argued that providing access to savings services is a much more valuable service to poor people including those not able to access credit either because of lack of debt capacity or poor product offerings by the MFI than credit (Munhmandan, 2006).

Microfinance institutions differ from traditional banking services, which only target some specific groups in the population. It breaks the bureaucracies common in conventional banking by simplifying these tasks and forms, and put up banking centres in villages (Yunus, 2007).

Therefore, MFI's core principle lays on the assumption that home and micro-enterprises people are motivated to do anything possible to get out of vicious circle of poverty and have better lives. Microfinance institutions have several features that differentiate them from commercial banking procedures (Danopoulos, 2004). Among them are the five characteristics of poverty alleviation tool which are; Small loan size, which is determined by micro lending institutions and depends on the country's socio-economic development- Focus on underprivileged borrowers, who have little or no access to loans/credits. - Emphasize on the use of loans to start microenterprises as they provide employment opportunities to clients - Absence of tangible collateral, and formation of joint-liability groups to enforce payment - Savings mobilization programs that require borrowers to have savings accounts and accumulate financial assets (Danopoulos, 2004).

Microfinance institutions are able to serve as financial first responders to small businesses because they operate locally, which puts local deposits back to work in the community through loans to local residents and small businesses. Small business lending has always been the bread and butter of community banking, and because community banks are small businesses themselves that they operate in the same way community as their small business customers, they understand the needs of small businesses and the challenges they face better than anyone else does in the marketplace (Jeff, 1999).

For their size, community banks are prolific small business lenders providing a substantial number of small business loans across the country Jeff (1999) argues that community banks drive local economies, create jobs hence being integral part of several nations' financial system, and encourages local small businesses to work with Microfinance institutions. Thus, there is an assurance that no doubt customers shall be satisfied with the superior customer service, market knowledge and common-sense products that come with banking locally at a community bank. In addition, Community banks provide communities with more than just quality banking services, they deliver employment opportunities for local people, keep local capital in the community, and is a local investment option for shareholders and provide a source of revenue for important community projects determined by local community.

Microfinance institutions' industry has seen impressive growth for longer than a decade and yet still has reached only a small percentage of its potential market worldwide. The question remains with how it can reach still those un-served population.

Microfinance institutions deal with providing sustainable financial services for the very poor. Nevertheless, MFIs are well established, they have mostly failed to penetrate remote rural areas because the costs are too high and the demand for credit too small. Meanwhile, over the last 15 years, massive sustainable programs have emerged that reach this target group at very low cost based on autonomous small-scale savings and loans.

According to Otero (1999) microfinance institution is the provision of financial services to low-income poor/underprivileged and very poor self-employed people. Nevertheless, financial services include savings and credit but also include other financial services such as insurance and payment services (Wood, 1999).

Hence, Microfinance Institution involves the provision of financial services such as savings, loans and insurance to underprivileged/poor people living in urban and rural areas who are unable to have such services from the formal financial institutions. Therefore, though MFIs have improved the standard of living of some underprivileged groups in Rwanda due to group loans and easy accessibility to small loans given to them, it has been learnt that majority of these groups are using secured loans to not intended businesses as they requested them hence ending up defaulting (UOB credit survey report, 2015).

Microfinance institutions have several limitations as noted by different scholars in the field of MFIs study; among them are; Basing on CGAP's survey, it is not surprising to say that over 144 MFIs found had no sufficient funds to enable them expand and grow in their activities (Shields & Frankiewicz, 2004) there has been lack of quality

information on both financial and social performance available on MFIs, there also seems to be a continued lack of understanding regarding important issues particular to MFIs. High interest rates is another limitation that hinders investors not fully appreciate the rates charged by alternative sources of finance for the poor money lenders or the need for MFIs to charge higher interest rates to cover high operating costs relative to loan sizes.

Other barriers in MFIs include lack of knowledge about particular countries and their financial markets, lack of sufficient foreign exchange hedging instruments( for foreign currency -denominated debt), and inadequate risk/return profiles. Since Microfinance institutions are dealing with collection of savings from the public, they have the guiding principles.

The underprivileged/poor people in most of the developing countries save. Thus, the MFIs task is not to teach them to save, but to learn their needs and design and deliver products and services that meet their demands. This shows that developing countries poor people save in the informal sector, in the ways they match the type of savings with the purposes for which they save. A wide range of countries, cultures, and economies which shows that economically active poor/underprivileged group savers want from their financial institutions evidences this. But all in all, the low-income savers whether in India or Rwanda or Uganda or Bolivia generally want security, convenience, liquidity, confidentiality, a choice of products appropriate for their needs, helpful and friendly service, returns and potential access to loans.

Microfinance institutions that want to mobilize savings from low-income people must understand in what ways and for what reasons underprivileged/poor people save and what savers like and dislike about each savings method used. Thus, MFIs can then design and deliver financial products that will maintain those aspects of their present savings methods that savers like and improve on their dislikes such as lack of security. It is from there that the MFI can develop products and services that meet the needs of the poor /underprivileged people better than they can do themselves. Regulated MFIs that provide clients with the complete package can, and have, attained a wide outreach profitably.

However, being regulated and considered secure are necessary but not sufficient, to attract most savers. Clients who are borrowers will often travel long distances and wait in long lines for matters connected their loans unless the MFIs operate in a competitive environment where better services are available (Robinson, 2004).

However, based on the various scholars' findings on the topic as discussed earlier, the researcher discovered that most of these MFIs are giving money to illiterate customers and the use of this money becomes one of the challenges to them. The researcher found that most of these customers who secure loans from these MFIs are diverting them to non-registered businesses and as impact; they end up defaulting to meet their obligations to repay.

Basing on the facts at the ground, the researcher found that majority of the customers who secured loans are paying them on weekly basis. Nevertheless, to them, it is a burden though, these customers, say that it is one of the MFIs product that opened their minds

and build confidence towards financial institutions for loans. To the knowledge of other authors who wrote about Microfinance institutions but did not tackle the issue of diverting loans to non-registered businesses and its impact.

Finally, based on different researchers' views, microfinance institutions have played a big role in the development of local communities in all sectors. These sectors being economic and social welfare by giving them banking services that would not have been got in other banking financial institutions due to lack of securities, information about the sector(banking) and processes passed through to secure a loan. Thus, believe that community banks have uplifted the standards of living of rural communities' economies. However, even though these CBs are doing a good job, since they started in different countries, they have failed to serve those they intended to due to various reasons.

In conclusion, financial services through the microfinance institutions should be flexible if they want to achieve their main objectives of serving the underprivileged groups that had no access to financial services before. This should be done through savings mobilization, than government and external borrowing being primary sources of funds to such microfinance institutions. However, where government intervention is meant to achieve poverty reduction, the administration of financial services should be such that it is sustainable and cost effective and majorly focus to the poor who need to be served.

## **1.2 STATEMENT OF THE PROBLEM/RESEARCH PROBLEM**

Microfinance institutions are engaged in extending microfinance products/ loans and other financial services to home and microenterprises borrowers for income generating and self-employment activities. Microfinance institutions specifically provide financial services to the home and microenterprises that were typically excluded from the formal banking system for lack of collaterals (Morduch, 2000).

Therefore, MFI's core principle lays on the assumption that home and microenterprises people are motivated to do anything possible to get out of vicious circle of poverty and have better lives (Yunus, 2007).

Despite the policies put in place by the government to improve economic welfare of underprivileged groups in Rwanda, problem of reaching the groups remained an issue as these policies failed to penetrate to serve the underprivileged (Rwanda MDG's report, 2007).

Nonetheless, the government efforts to eradicate poverty, through initiating policies including Community banking through microfinance institutions, Credit and savings cooperatives, Umurenge SACCOs, infrastructure and universal education for those who were some time back deprived of such facilities due to various reasons like lack of collateral securities to access loans and able to educate their children, all these policies are now days functional in urban and rural areas in regard to uplift the economic and Social welfare of underprivileged group in the country.

However, the problem still holds as per the national institute of statistics report of 2016 conducted by FinScope Rwanda Survey report indicate that there are 11% population which is excluded to both formal and informal financial services in Rwanda.

### **1.3 OBJECTIVE OF THE STUDY**

The general objective of the study is to analyze the contribution of Microfinance institutions to the improvement of economic welfare of underprivileged groups in Rwanda.

#### **1.3.1 SPECIFIC OBJECTIVES**

1. To analyze the extent to which services offered by UOB improve the economic welfare of underprivileged groups in Rwanda.
2. To examine extent to which underprivileged groups access to financial services offered by UOB.
3. To find out the challenges faced by both parties customers during the accessibility of financial services by UOB in delivering these services

### **1.4 RESEARCH QUESTIONS**

In order to attain the stated objectives, the researcher was guided by the below questions:

- i To what extent do financial services offered by UOB improve the economic welfare of underprivileged groups in Rwanda?
- ii To which extent underprivileged groups access financial services provided by UOB?
- iii What are challenges faced by both parties customers during the accessibility of financial services by UOB in delivering these services

## **1.5 THE SIGNIFICANCE OF THE STUDY**

The study will be a useful tool to the banking industry and other financial institutions. In addition, it is with no doubt that, the results of the study will help to create the awareness of the impact of community banking/microfinance institutions to the economic welfare of underprivileged groups in rural and urban areas to the population of Rwanda and the economic policy makers. This will help the country to adopt some new strategies that will help to obtain the objectives of the economic welfare of underprivileged groups in rural as well as urban areas. While, reasons for selecting these districts are; Nyagatare is one of the districts with many people, who are cattle keepers and majority of them knew nothing about financial institutions. While, Nyarugenge is one of the urban areas where underprivileged groups are accessing community banking/microfinance loans also for their developmental activities.

Lastly, the findings of the study will provide data for further research works

## **1.6 AREA OF THE STUDY**

The area of the study is restricted to UOB Rwanda Ltd. This study is basing on the impact of MFIs to the economic welfare of underprivileged groups in Kigali city/Nyarugenge district and Nyagatare district both in Rwanda. The reason for choosing these two districts is that Kigali city has many people who are elite in comparison to other regions of the country where as Nyagatare district was chosen because, it's one of the districts' that has many people who were cattle keepers with no or little knowledge about accessing microcredit loans in either banking or non-banking institutions. Nonetheless, since the introduction of community banking activities in this district, a

good number of people have benefited from them both economically and socially. UOB is one of the leading microfinance institutions/bank in Rwanda that currently exercising community banking system in the promotion of economic welfare of underprivileged groups.

Introduction of Community banking has helped the majority of the community especially the underprivileged group(s) in urban and rural areas to have access to loans. The system of microfinance institutions has sharpened people of different categories to do small businesses due to easiness of loans to them as per the testimonies from the beneficiaries.

## **1.7 ORGANIZATION OF THE STUDY/ RESEARCH**

The research consists of five chapters arranged as follows;

CHAPTER I: This chapter is composed of introduction, objective of the study, hypothesis, Statement of the problem, research questions

CHAPTER II: This chapter reviews the existing literature as regard impact of community banking/Microfinance institutions as a factor of improving economic welfare of underprivileged groups in Rwanda.

CHAPTER III: This chapter consists of the methodology that will be used e.g research design, sample and sampling techniques, population, data collection procedure, data analysis, software to be used in the analysis and Limitations of the study.

CHAPTER IV: This chapter consists of data analysis, presentation and discussion of the main findings.

CHAPTER V: This chapter is containing the conclusion, recommendations and the summary of the study.

## **CHAPTER II: LITERATURE REVIEW**

### **2.0 INTRODUCTION**

The chapter majorly reviews the ideas laid down by other authors on the topic in their different reports, books, published magazines and other documents that were disposed to the researcher in relation to their findings ,arguments, remarks and recommendations that were available during this research. The purpose of this literature review is to highlight the gaps the research is to fulfill. However, the chapter further describes the important concepts related to the topic.

### **2.1 Conceptual Review**

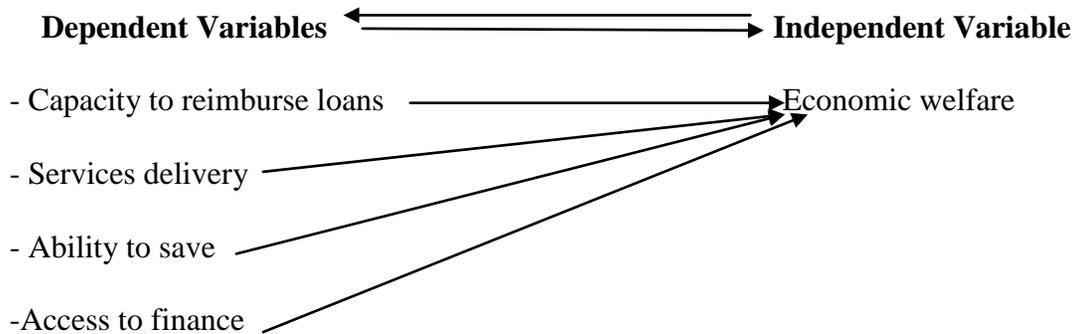
In order to disclose the impact of MFIs to serve the underprivileged groups, the study revealed some key variables as; access to financial services, capacity to refinance loans, improvement of economic welfare, availability of collaterals and ability to save and invest.

The literature reviewed showed that the debate on MFI is inconclusive on the impact of MFIs on economic welfare as the study reveals. It is noted that the varying conclusions in the study may be accounted for the differences in the methodology used to measure the impact among other biases. Thus, conducting such a study is based on the increased number of people (underprivileged) accessing microcredit loans and growth of small businesses in Rwanda. It is therefore, against this background that the researcher finds it

important to conduct a study on the impact of MFIs on economic welfare of underprivileged groups in Rwanda.

## 2.2 Concept framework

On concept framework, there are some dependent variables and independent ones as by the graph.



Based on the above variables, economic welfare can be improved or worsened if one of these variables is not delivered to its expectation e.g if service delivery is good then those who access this service can feel satisfied and hence improve their economic welfare, also if people are given loans and fail to reimburse these loans, they will not be given other loans and as impact is poor history to the extent that can't be given other loans and eventually their economic welfare will not improve. Lastly, if there is no or little access to finance, this will negatively affect the economic welfare of the underprivileged groups in Rwanda.

### 2.2.1 Theoretical Review

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 that are affordable by the poor clients. These schemes also cut on the

bureaucratic tendencies that 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 (Qorini, 2005).

Credit enables poor people to overcome their liquidity constraints and undertake some investments. Furthermore, credit helps poor people to smooth out their consumption patterns during the lean periods of the year (Okurut et al 2004) and by so doing, credit maintains the productive capacity of the poor households.

Burger (1989) observed that microfinance tends to stabilize 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

Mishan (1964), to him, economics rank welfare based on better and worse, while Winch(1975), asserts that it is assumed that individuals economic welfare is attempt to maximize utility and said that individual attempts to maximize utility.

Despite the overwhelming claims that microfinance credit works best for the poor people, Johnson & Rogaly (1997) argue that poorest borrowers become worse off because of credit that makes them vulnerable and expose them to high risks.

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 organizations (Lont & Hospes 2004).

### **2.2.2 Empirical Review**

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 favorable 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 because of new income from micro-enterprise. This will in turn lead to poverty reduction on underprivileged and all family members (Gulli & Berger 1999).

However, based on the mentioned concepts, it was noticed that some are not clear and not understood. While others cannot be measurable for the time being for example utility concept. In addition, some scholars are not talking the same on the best variable that can be used to measure the economic welfare e.g income and consumption. Still this is an issue where some say that income is better than consumption in terms of measuring economic welfare. Nevertheless, according to my study, I found that consumption is the best way of measuring economic welfare of the underprivileged groups as it shows the household detailed information.

### **2.2.3 Community Banking Concept**

By fostering the economic health and importance of local communities throughout the country, community banks play a central role in the national economy. One important aspect of that role is to serve as a primary source of credit for the small businesses that are responsible for creating a substantial proportion of all new jobs. The Lee and Williams (2013) provides evidence of the importance of small businesses to job creation in the economy of every nation and the important contribution that community bank lending makes to the survival of small businesses. Lee and Williams find that community banks increase the likelihood that a new small business uses bank credit to finance its operations. Their findings support the importance of community bank's relationship with its customers in underwriting loans to particularly small businesses.

(Young *et al*, 2013) look at differences in loan default rates across community banks and find that banks in rural areas make loans that default less often than loans made by community banks in urban areas. They also find that loans made outside of a bank's local area default at higher rates than do local loans.

Khayum, (2013) notes that there has been more emphasis in recent years on the challenges facing community banks than on the opportunities available to them. However, given the success that community banks have enjoyed in lending to small businesses, this paper explores the possibility that these institutions could expand their involvement in business equipment leasing, a potential growth area that community banks might want to invest in. The scholars find that community banks that are actively involved in financing small businesses are more profitable and efficient than other community banks.

It was found that Community banks profitability is affected by both external factors outside of bank control, such as local economic conditions, and factors within bank control, such as the composition and stability of the bank's loan portfolio.

Amel & Prager, (2013). examine the effects of these two sets of factors on bank profitability over the past 20 years. They find that local economic conditions and demographic changes certainly affect bank profitability, but also that the quality of bank management and the stability of bank portfolio composition consistently have a very substantial impact on a bank's level of profits.

They further, find that any major change in a bank's portfolio composition tends to lower community banks profits, indicating yet again that community banks tend to be better off when they stick to the markets and products that they know. Thus, these scholars will continue to assess the overall effects of the new rules on the safety and soundness of

community banks and to consider whether modifications to rules, or the ways in which the rules are implemented, could achieve the safety and soundness aims with a lesser burden on this class of depository institutions.

While community banks certainly face challenges, their future is not seen as a failure but they continue to do a good job of attracting core deposits, and those stable and relatively inexpensive deposits remain the most outstanding after liability on bank balance sheets.

In short community banks have to focus largely on small business and commercial real estate lending--products where community banks' advantages in forming relationships with local borrowers are still important (Community Banking Research Conference, 2013).

FDIC, (2012) asserts that Community Banks are measured in terms of assets size, focus on providing Traditional Banking services in their local Communities, obtaining most of their core deposits locally and make many of their loans to local businesses. The study continues to say that community Banks having specialized knowledge of their local communities and their customers, they have close relationships with their customers. Therefore, because of their sizes, community banks only conduct business locally and are more likely privately owned and locally controlled than larger banks.

Community banks focus on small businesses particularly small start-up businesses that may be unable to satisfy the requirements of the more structured approach to underwriting that larger banks use. The relationship of lending approach used by CBs is

often the only avenue small businesses have to obtain loans and access other financial services (FDIC, 2012).

Community banks are known for offering personalized service and meeting the needs of the local residents and businesses in ways that a larger, non-local bank, which does not know the unique characteristics of the community, cannot. Microfinance institutions provide services and works with the community at the grass roots level. However, community banking is not all about giving loans to the people but also strengthening the person being financed. Not only, do microfinances give loans but also they have another task of social responsibility that transcends liquid cash, to reduce poverty in the community and hence provide a sustainable economic growth among the poor.

Community banks are unduly constrained in their ability to offer traditional products and services they may feel pushed to go into business lines with which they are not familiar. This could pose a risk to the viability of the banks and ultimately to the federal deposit insurance fund. The FDIC, in its recent report on CB; concluded that the banks that stuck to traditional lending strategies fared much better than their counterparts that abandoned those lending specialties for small extra yield (FDIC, 2012).

CGAP, (2009) observes that numbers of people, households, firms' savings characterizes the worldwide indicators of financial access, receiving loans, making payments, and using other financial products from various sources both formal and informal.

#### **2.2.4 Advantages of Community Banking**

Community banking has many advantages unlike other financial institutions as shown by; ICBA (1999) Primarily, Community banks focus attention on the needs of the local families, businesses and farmers. Conversely, many of the nation's megabanks are structured to place a priority on serving large corporations unlike many larger banking institutions say banks that may take depositors live and work, these CBs help local communities to keep vibrant and growing. More to that, Community banks officers are generally accessible to their customers on-site than other banking institutions.

Furthermore, Community banks officers are typically deeply involved in local community affairs, while large bank officers are likely to be detached physically and emotionally from the communities where their branches are located. Again, many community banks are willing to consider character, family history and discretionary spending in making loans. Whereas, Megabanks, on the other hand, often apply impersonal qualification criteria, such as credit scoring, to all loan decisions without regard to individual circumstances.

Community banks offer simple decision-making on business loans because decisions are made locally and since their first-hand, knowledge of their customers provides them useful information for sound lending decisions. Therefore, as a result, community banks' loans tend to default at lower rates than loans made by bigger institutions. Due to community banks being themselves small businesses, they understand the needs of small business owners. Therefore, their core concern is lending to small businesses and farms.

However, Community banks offer a wide range of banking services and products designed to meet the needs of consumers and businesses. E.g small businesses, agricultural lending, saving and investment products all offered at lower fees than in other large financial institutions.

Again, community banks reduce the time spent on processes and procedures of securing loans. Thus, the gained time is spent in other business activities and this improves the standard of living of various communities. More so, community banks build human capital at the community and government levels that can then contribute to the success of other businesses. Hence, as these community banks keep on growing, they can lead to the development of other private sectors' enterprises. In addition, community banks have strong relationship and detailed knowledge of their customers unlike in other Banking Institutions where they do not have such deep relationship.

Finally yet importantly, Community banking in common practice does not make “cookie-cutter” loans and do not offer the same standardized products as larger banks but instead tailor their services to the needs of their customers.

Finally, community banks are the primary source of lending for small businesses and farms (ICBA, 1999).

### **2.2.5 Challenges to Community Banking Under Microfinance Institutions**

In many countries, especially developing countries, Rwanda inclusive, microfinance institutions are facing challenges of majority of the population they are serving being the poorest/underprivileged people who do not have access on banking system due to lack of requirements to have loans. This has led to other banks not responding to the demands of this group of people to provide them with financial services.

Various scholars have argued the challenges facing these MFIs. Some of their findings suggests, microfinance institutions in Rwanda are challenged by poor loan quality and high non-performing loans, which remain to be a big challenge for the sector.

Another challenge that is facing community banking under Microfinance institutions in Rwanda is the concentration of these banks/institutions in urban and semi-urban areas where about 50% of Rwandan MFIs/CBs are operating in the southern and Western provinces of the country and concentrated in the cities. This has disrupted many to have access to finance and efforts made by other development actors.

In addition, limited institutional capacity is another challenge that is faced by Rwandan microfinance institution. Here, Rwandan microfinance institutions lack strong institutional capacity where by 90% of these institutions have no management tool when addressing strategic decision making and more than 75% of these institutions operate using manual management information system using wires to meet their daily business information needs (MFI Transparency, 2011).

Again, there is an issue of poor credit culture developed amongst clients in urban or semi-urban MFIs consumers MF Transparency (2011 and 2010). This poor credit culture has been attributed to the influx of donations after 1994 conflict, where the legacy still affects the sector today. Other challenge faced by community banks include poor economic conditions, declining populations in rural areas, the increasing technological sophistication of banking, low interest rates, and difficult capital markets.

Regardless of community banking efforts, regulatory costs is said to work against smaller financial institutions as they attempt to compete with larger banks. Many of the community bankers participating in a survey in the early 2000s showed strong concerns that the rules of competition worked against them namely, that state regulation placed them at a disadvantage relative to their large bank and nonbank rivals.

Another big challenge today is the clients' poor levels of loan repayment due to loan diversion to meet personal needs instead of investing the money in the proposed business. Thus, hindering the ability of microfinance institutions to perform well. More to this, there is a challenge of corruption scandals, lack of integrity and good practices amongst community banking/ microfinance and poor management of funds. A good example is that in 2006, about 9 MFIs were closed due to the issue of corruption matters. Lastly, community banking under microfinance institutions in Rwanda has the biggest challenge of where thousands of their borrowers fail to service their loans and this contributes to the

high percentages of non-performing loan portfolios seen in Rwanda's financial sector (MF Transparency, 2011 & 2010).

### **2.2.6 Community Banking Requirements**

First, community banking requires adhering to the prevailing rules and regulations of the regulatory body that in most cases is the Central Bank. It also, requires the Community Banking to Understanding the environment in which it operates to be successful and to overcome challenges within the financial reforms always (FDIC, 2012). More to that, community banking is required to have a minimum capital requirement in order to establish. Furthermore, Community Banking is required to adjust to the prompt corrective Action thresholds.

Regulatory compliance is the major cost to all banks as these regulations have resulted into redundant and conflicting burdens to the entire company. Regulatory costs have become a big luggage to the community banks that are small with little capital than big banks. Thus, this disproportionate burden on small banks can change the bank landscape. Compliance as one of the community banking requirements has caused some financial institutions/ banks to stop offering certain products and services or to decide not to expand their businesses because of being costly.

In addition, to the costs of hiring new compliance personnel and buying new software, compliance costs include less easily quantifiable costs of psychological costs and dynamic changes in the risk-taking of community banks to compensate for higher fixed

costs. They could also include the legal costs associated with regulatory enforcement actions, brought by state attorneys general (FDIC, 2012)

### **2.2.7 Welfare Concept**

Various scholars define the term welfare differently. However, the concise definition of welfare is as “Satisfactory state, health and prosperity, well-being,” and the concept of welfare in this sense may be thought as incorporating everything that can distinguish one social state from another. The level of welfare is not held to be an observable phenomenon subject to cardinal measurement, but capable of assignment to an ordinal scale at best. Thus, according to Mishan (1964), theoretical welfare economics endeavors to formulate propositions by which we may rank, on the scale of better or worse, alternative economic situations open to society.

While, Winch (1975) puts it as follows; “We assume that individuals attempt to maximize utility and define utility as that which the individual attempts to maximize. Thus, the nature of utility or welfare rests entirely on the value judgments of the individual or society concerned.

Economics today have the problems that some basic concepts need to build a theory on, but those concepts themselves are not well understood or even are not measurable for the time being. A prime example is the welfare or utility concept. It is taken to be a primitive concept, as the concept is also used in sociology and psychology as a basic concept, the understanding of that concept may be seen a common task of the social sciences. The attitude of economics towards utility or “welfare” has always been ambiguous. On one hand, the concept was absolutely needed in order to develop a positive and normative

theory of economic behavior. On the other hand, economists felt themselves very uneasy with the concept, as its measurability was doubtful. On the other hand, welfare is mainly on the monetary dimensions of well-being, income and consumption. Therefore, when estimating monetary measures of poverty, one may have a choice between using income or consumption as the indicator of well-being. However, most analysts argue that provided the information on consumption obtained from a household survey is detailed enough, consumption will be a better indicator for poverty measurement than income.

### **2.2.8 Welfare Measurement**

Welfare indicators are in different ways as indicated by various scholars. However, these indicators include among others; socio-economic, social, political and economic indicators. Thus, the study will majorly focus on the social and economic indicators to the underprivileged groups in Rwanda as a result of accessibility to loans by these groups. In order to analyze welfare states or, for that matter, public, fiscal, occupational welfare, and societies' total welfare, it is important to be clear about what welfare is as that has consequences for our understanding of what a welfare state is and how welfare can be measured. This is especially important when making cross-country comparisons or developments.

Scholars from different academia have pointed out that GDP is the measure of the welfare. From this point of view, they gave out 3 different approaches to alternative measurement of welfare as below; Firstly, there is one involves extending the existing national accounts in order to arrive at a welfare measure that is theoretically sounder

Secondly, the other approach evaluates the excess to certain basic goods (education, health care) etc by the study of a set of social indicators.

While the third approach targets mental states, more directly by means of survey data on reported subjective well-being. The index of sustainable economic welfare (ISEW), an indicator derived from the first type of approach is the commonly used one in measuring economic welfare.

Equally so, a case is made for the development and support of all alternative approaches to measuring welfare, since they each contain valuable information that is not captured by the other ones.

Diener & Suh, (1997) argue that it is necessary to use both social indicators and subjective well-being measures for the evaluation of society, since these measures add substantially to the regnant economic indicators that are now favored by policy makers. They claim that each approach to measuring welfare contains information that is not contained in other measures.

Also, among the measures of welfare, is consumption, which is one of the indicators of welfare than income because it is more closely related to a person's well-being in the sense of having enough to meet current basic needs. While income is only one of the elements that allow consumption of goods, (others include questions of access and availability, etc. More to that, Consumption is a better measure of welfare than income in that, in poor agrarian economies and in urban economies with large informal sectors, income flows may be erratic and fluctuate during the year. Thus, it becomes difficult in

estimating income consists in excluding the inputs purchased for agricultural production from the farmer's revenues.

Furthermore, large shares of income are not monetized if households consume their own production or exchange it for some other goods, and it might be difficult to price these. Thus, estimating consumption has its own difficulties, but it may be more reliable if the consumption module in the household survey has been well designed. However, welfare can either be cardinal in terms of utilities or in terms of dollars or measured ordinal in terms of Pareto efficiency.

Finally yet importantly, Consumption may better reflect a household's ability to meet basic needs. Consumption expenditures reflect not only the goods and services that a household can command based on its current income, but also whether that household can access credit markets or household savings at times when current income is low or even negative, due perhaps to seasonal variation or harvest failure. Thus, Consumption can therefore provide a better picture of actual standards of living than current income, especially when income fluctuates a lot.

Happiness is a measure for welfare and sometimes referred to as subjective well-being, and has been increasingly researched Layard, (2005). This connection might be attributed to the fact that welfare (and social welfare) has been associated with individual perception of utility, and thereby, the old version of how to value and add up individual utilities to the societal level of welfare. The contemporary emphasis on individualism

means that the total happiness of a society is often understood as the aggregation of individuals' perceptions of their lives.

Therefore, Happiness is measured by asking individuals about their perception about being happy using different scales. Thus, the way to measure welfare on the individual level and the aggregation takes place by adding the scores to an average score when comparing between countries. "General happiness is the measure of subjective well-being examined most frequently" Yang, (2008). Hence, happiness is therefore, used as one of the proxies for welfare at the micro level. Nonetheless, welfare is not easy to define, at least in a way that can commonly be agreed upon, but Gross National Product, society spending on welfare policies, happiness, and avoiding poverty are good indicators. This can be confirmed by the fact that "after controlling for the characteristics of people and countries, macroeconomic forces have marked and statistically robust effects on reported well-being.

Gross Domestic Product (GDP) affects a country's happiness" (Tella M. & Oswald 2003). Hence, stating that, "welfare is the highest possible access to economic resources, a high level of well-being, including happiness of the citizens, a guaranteed minimum income to avoid living in poverty, and, finally, having the capabilities to ensure the individual a good life.

In addition, access to resources including the financing of a variety of benefits and services are other important aspects of measuring welfare. It is, complicated therefore, to find the necessary data in order to depict total society spending on welfare (Dixon, 2000; Obinger & Wagschal, 2001; Castles, 2004).

### **2.2.9 Welfare Determinants**

Poverty is also important as it has implications for the level of happiness. Poor people often have a lower level of happiness (Lelkes (2006); Peiro (2006)). Thus, emphasis on how to reduce people's poverty is important. One way to measure, poverty is in terms of the risk of having a disposable income below a certain threshold after social transfers. However, CBs were initiated to address the matter as they penetrate to lower levels to serve unserved groups of people.

Therefore, welfare determinants are both social and economic based on these scholars (Wilensky & Lebeaux (1965), Wilensky (1975); Uusitalo, (1984); Flora(1987) etc. social welfare determinants are industrialization, Urbanization, Modernization, working-Class mobilization, Union strength, open economy and national ideology.

### **2.3 The Impact of Community Banking on Improvement of Welfare**

Microfinance /Community banking have played a very important role in development according to proponents of microfinance. UNCDF (2004) states that studies have shown that microfinance/community banking play three key roles in development as follows; Helps very poor households to meeting their basic needs and protects against risks, It is associated with improvements in household economic welfare, Helps to empower women by supporting women's economic participation and so promotes gender equity.

Otero (1999) illustrates the various ways in which "microfinance, at its core combats poverty". She states that microfinance/community banking creates access to productive capital for the poor, which together with human capital, addressed through education and

training, and social capital, achieved through local organization building, enables people to move out of poverty (1999). By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).

The aim of microfinance/community banking according to Otero (1999) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Littlefield and Rosenberg (2004), state that the poor are excluded from the financial services sector of the economy. However, MFIs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999).

More recently, commentators such as Littlefield, & Hashemi (2003), Simanowitz and Brody (2004) and the IMF (2005) have commented on the critical role of microfinance in achieving the Millennium Development Goals. Simanowitz and Brody (2004) state, “Microfinance is a key strategy in reaching the MDGs and in building global financial systems that meet the needs of the most poor/underprivileged people.”

Littlefield & Hashemi, (2003). state “microfinance is a critical contextual factor with strong impact on the achievements of the MDGs. Microfinance is unique among development interventions: it can deliver social benefits on an ongoing, permanent basis

and on a large scale”. Referring to various case studies, they show how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women.

However, not all commentators are as enthusiastic about the role of microfinance in development and it is important to realize that microfinance is not a silver bullet when it comes to fighting poverty. Hulme & Mosley (1996), while acknowledging the role microfinance can have in helping to reduce poverty, concluded from their research on microfinance that “most contemporary schemes are less effective than they might be” (1996). They state that microfinance is not a panacea for poverty alleviation and that in some cases the poorest people have been made worse off by microfinance. Rogaly (1996) finds five major faults with MFIs. He argues that: They encourage a single sector approach to the allocation of resources to fight poverty, Microcredit is irrelevant to the poorest people, an over simplistic notion of poverty is used, There is an over emphasis on scale, There is inadequate learning and change taking place.

Wright (2000) states that much of the skepticism of MFIs stems from the argument that microfinance projects “fail to reach the poorest, generally have a limited effect on income, drive women into greater dependence on their husbands and fail to provide additional services desperately needed by the poor”. In addition, Wright says that many development practitioners not only find microfinance inadequate, but that it actually diverts funding from “more pressing or important interventions” such as health and education.

Navajas et al (2000), there is a danger that microfinance may secure funds from other projects that might help the poor more. They state that governments and donors should know whether the poor gain more from microfinance, than from more health care or food aid for example. Therefore, there is a need for all involved in microfinance and development to ascertain what exactly has been the impact of microfinance in combating poverty. Considerable debate remains about the effectiveness of microfinance as a tool for directly reducing poverty, and about the characteristics of the people, it benefits Chowdhury, (Mosley & Simanowitz, 2004).

Sinha (1998) argues that it is notoriously difficult to measure the impact of microfinance programs on poverty. This is so she argues, because money is fungible and therefore it is difficult to isolate credit impact, but also because the definition of 'poverty', how it is measured and who constitute the 'poor' "are fiercely contested issues" (1998). Poverty is a complex issue and is difficult to define, as there are various dimensions to poverty. For some, such as World Bank, poverty relates to income, and poverty measures are based on the percentage of people living below a fixed amount of money, such as US\$1 dollar a day (World Bank, 2003).

The impact of Community Banking on economic welfare improvement of underprivileged is found in many rural areas than in urban areas. Microfinance institutions have improved a lot to the welfare of the population in Rwanda where today forty three thousand (43000) females and 3000 males are accessing loans. All these previously had no access to any other financial institution/s (UOBs data, 2013).

Therefore, MFIs have even waived fears to underprivileged/poor by empowering them with confidence of securing loans from even other financial institutions in Rwanda. Surprisingly enough, some of these people started with 15000Rwf and today, they are securing 10millionRwf to 15millionRwf. A typical example is one client by names of Mrs. Antoinette Uwimana from Musanze district who started with a loan of 15000Rwf from community banking in 2003 and today is securing 15M and 20M, UOB transformation (Department Report, 2013).

Therefore, community banking has positive impact on the improvement of welfare in Rwanda both socially and economically. The reason being that previously, government of Rwanda had its population (95%) mainly involved in subsistence agriculture, where most people lack access to financial services for doing other small businesses. However, the establishment of community banking has provoked the minds of the poor/underprivileged to wake up and run other businesses that could earn them some revenues hence improving on their welfare.

The good news is that steps forward in financial access, especially in the rural areas, are being made. According to findings from a 2012 FinScope survey, 23 percent of the adult population in Rwanda is considered “banked,” while 42 percent is considered “financially” using formal financial services. This is a 9 percent increase in the banked population and a 21 percent increase for the financially included since the 2008 survey. This is largely due to the rollout of local Umurenge Savings and Credit Cooperatives

(SACCOs) in each of the 416 sectors with all 30 districts. The government is supporting these efforts.

However, there is more work to do, including pairing financial education with basic literacy; increasing the use of ATMs, point-of-sale devices and other technology; upgrading financial knowledge for those who already grasp the basics; and targeting financial lessons at young people.

The program is working with financial institutions like banks and microfinance institutions to develop more products that are appropriate and services for rural communities. It is working on sensitizing communities to use mobile payments. About 60 percent of savings groups are linked to SACCOs, where they save some of the money collected from their members and are able to access larger loan amounts than those available from their savings group loan fund.

Global Communities and other partners on the ground continue to work to expand these opportunities and thereby increase financial literacy and usage of financial products among all Rwandans ([www.usaid.gov](http://www.usaid.gov)) . To conclude, the researcher is not agreeing with some scholars that Microfinances have worsened the welfare of the poor people. The researcher's arguments are based on how many illiterates and the poor /underprivileged today are doing small businesses on their own and are able to secure small loans and manage them effectively by making savings.

In addition, the researcher is against some scholars' ideas that MFIs/CBs have created dependence of women to their husbands. The researcher's argument is that instead women have been empowered through MFIs by securing their own loans, which need not the husbands to intervene for her to get that loan. Hence, to the researcher, women are independent of their husbands in securing loans and providing themselves with the basic needs.

## **CHAPTER III: RESEARCH METHODOLOGY**

### **3.0 INTRODUCTION**

The chapter discusses the research methods, procedures and tools that are applied, for data collection and analysis and the general obstacles that were met during the research/study. In addition, it is in this chapter that the researcher used both primary and secondary data, samples to represent the population mainly to locate the respondents in the study because; it is hard to reach every individual during data collection.

### **3.1. RESEARCH DESIGN**

The study used a case study research design to collect both qualitative and quantitative data. The research was conducted in two districts, which are Nyarugenge district, and Nyagatare district because Nyarugenge is has a big number of underprivileged groups who are using their loans in doing businesses efficiently and are characterized by increase in loans at the end of the cycle and Nyagatare district is has many people who for long period had no access to financial and non-financial services. Urwego Opportunity Bank was targeted as one of the Banks in Rwanda that had succeeded in Community Banking services delivery to the underprivileged groups in Rwanda.

### **3.2. STUDY POPULATION**

The target population of the study was 46000 beneficiaries (underprivileged) clients from across the country that are in 20 groups chosen from two districts of; Nyarugenge and Nyagatare that represent the whole population under the study. The study used stratified sampling technique to select groups and clients because it enabled the study to achieve the desired representation from various sub-groups in accessible population. The sample size was based on 2 districts that were randomly chosen.

### **3.3. SAMPLING PROCEDURES**

To make sure that the population is well represented; a stratified sampling technique was used. While to get the figure, a simple random sampling technique was applied where every client had a chance of being among the sample. Here, numbers were put on papers and whoever got the number was given a questionnaire. However, it would be better to consider the whole population by making observations. Nevertheless, due to research problems among which being limited resources, the observations are restricted to a sample of individuals to represent the population Barker (1976). As a sample is a sub set of population selected to fulfill the objectives of the study, the researcher's sample was grouped into two categories of; Community Banking (CB) and Advanced Community Banking (ACB) groups 20 underprivileged groups of CBs and ACBs). The sample of the study was 250 customers got from those two categories of 10 groups for CBs and 10 for ACBs. The reason being that these groups are differing in loans secured based on their businesses expansion. In addition, it is one way of showing how underprivileged groups are advancing in their incomes.

Therefore, the study/research was based on 20 underprivileged groups from CBs and ACBs and as clients/customers of UOB, being served under community banking. However, these groups were mixed i.e rural and urban areas of outreach of UOB. The reason for this was to establish that not only MFIs serve rural people but also urban areas. However, on analysis made by the researcher basing on the questionnaires, it indicates that CBs have uplifted not only the economic welfare of the poor but also, the social welfare. This can be exemplified by how customers meet and discuss on the welfare of their colleagues and later on went there to educate s/he on the ways of improving his/her social welfare.

#### **3.4. SOURCES OF DATA**

The research was majorly based on the primary data that had been collected from the sample size where questionnaires were used.

#### **3.5. DATA COLLECTION TOOLS**

A big part of the research data was collected through administered questionnaires and desk research. Interviews of face to face were conducted with the Chief Relations Officer and Chief operations Officer to make sure that there was perfect accuracy of the information, enough explanations and clear understanding of the respondents' responses hence, enabling the researcher to save time.

The researcher administered these questionnaires and the issues of language problems were closely monitored and solved by the researcher. The questionnaires involved classification, opinion attitudes and open-ended responses and where these responses

provided and not excessively exhausted there would be a room for further provision for them. The mentioned methods used allow the researcher to have all questions responded to and no issues of non-response were encountered.

### **3.6. DATA PROCESSING AND ANALYSIS**

#### **3.6.1. DATA PROCESSING**

The raw data gathered from the field was processed using the computer software excel and crosscheck this data to ensure its accuracy. During data processing, only those related to the objectives of the researcher were considered and volumes of data gathered were condensed. Thereafter, the process involved tabulating, editing, analyzing and presentation of the exact information from interpretation of questionnaires as the findings of the research.

#### **3.6.2. DATA ANALYSIS**

Data analysis was made with the help of statistical tools among which; Percentages and mean averages were used to facilitate the researcher to make a meaningful conclusion from the data collected.

### **3.7. CODING**

Referring to Williamson (1982), coding came after the data has been gathered. The groups, in which responses were coded in, were established by examining the respondents' responses. The researcher categorized the responses to questionnaires based on to respondents' groups.

### **3.8. TABULATION**

This is the way of putting together the data collected into well-structured formats known as tables. Tabulation of data is made after the processes of coding and editing. It is made to show the frequency distribution of the codes and thereafter the number and percentages of these codes.

### **3.9. LIMITATIONS OF THE STUDY**

This study was limited to the impact of CBs to the improvement of Economic welfare of underprivileged groups in rural and urban areas.

1. The limitation of the study was the allocated time, which is always short in comparison to the researcher's proposed area of coverage.
2. The limitation of the study was also on data collection, distribution and collection of questionnaires that is time consuming because of the location and scatteredness of the underprivileged groups (respondents).
3. There was the limitation by the library management and functioning not satisfactory at many places and much of the time and energy of the researcher was spent in tracing out the books, journals, reports rather than in tracing out relevant material from them.
4. In addition, the limitation of the study was the language in which the questionnaires were set in because most of the respondents are illiterates. Thus, if the questionnaire is set in English, respondents would complain of interpretation, others, even though it would be set in Kinyarwanda, they would need the

researcher to read and tell them what he/she wants them to do. Hence, time consuming and delays in collecting data from the field.

5. There is also the difficulty of timely availability of published data from various government and other agencies doing this job in our country.
6. There was also the problem of our libraries not able to get copies of old and new acts/rules, reports and other government publications in time for the researcher to consult.
7. Finally, another limitation is the suspicious of respondents about the study and be reluctant to give the required information. Here, the respondents would refuse to respond completely to some questions thinking of other things contrary to the researcher's objectives

## **CHAPTER IV: DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF RESEARCH FINDINGS**

### **4.0 INTRODUCTION**

This chapter is majorly dealing with analysis and interpretation of the collected data from the field concerning the set objectives and hypothesis. Here, statistical percentages were tabulated during the data interpretation and analysis. The chapter is divided into 4 sections. First section is introduction; second section presents the UOBs background and the third section presents the impact of MFIs on economic welfare of the poor/underprivileged group and the fourth section presents the findings of the impact of MFIs on the economic welfare of the poor/underprivileged group(s) in Rwanda.

The study about the impact of MFIs on economic welfare of the poor/underprivileged groups in Rwanda was conducted with the help of questionnaires, interviews as tools for collecting data and basing on the funds that were given as loans to underprivileged from 1998-2014 as indicated in UOB transformation documents but, the study considered data from 2006-2014 to be years of reference since it's when UOB was aggressively competed by other financial institutions to offer the same products as it is offering.

### **4.1 Characteristics of Groups under Study**

The groups considered under the study were of a period from 1998-2014 and various features characterize them. However, as years were progressing, the characteristics of groups since 1998 to 2015 kept change on changing based on the customers' demands but

some remained unchanged self-selection of members of the group, minimum amount to the beginners, transferring funds from account to client's Drawdown account etc .

All the groups had a minimum number of clients below which they could not be given loans. For instance, CBs groups must have a minimum number of 30 members and a maximum of 60 members. However, from 2015 to-date, the minimum number was put to 15 and maximum remained at 60 members. CBs groups are also characterized by weekly repayment at an interest rate of 2.5% per month. In addition, CBs group members get loans ranging from 30,000 Rwf to 1 million Rwandan Francs repaid within a period of 4 months.

Again, groups studied on are characterized by different phases of repayment e.g weekly, Bi-weekly and Monthly. These repayments depend on the category of the group as there are 3 categories of groups which are; Traditional Community Banking (TCB), Advanced Community Banking (ACB) and Solidarity Groups (SGs). These mentioned groups have one common feature of having a minimum number of members, below which they can not be served. However, the numbers differ from category to category. As earlier mentioned, for instance TCB, has a minimum of 20 members and a maximum of 60 members, ACB, has a minimum of 10 members and maximum of 60 members while SGs have a minimum of 3 and maximum of 30 members.

More to this, CBs groups are self-selected and must be trained for at least a period of 4 weeks before being given loans. However, this has the greatest outreach and

transformational impact to Urwego Opportunity Bank. Loans sizes for these groups grow over time based on savings and group repayment performance.

Loans given to Community Banks and Solidarity groups are self-selected micro-entrepreneurs who work together to provide a mutual guarantee Community Banks under the study deal mostly in small businesses where they are given loans with a period ranging from 4 months to 12 months. These loans are paid into 3 ways; weekly, bi-weekly and monthly depending on the amount and contract with UOB company.

Another feature with these groups under the study is that they pay different rates i.e 2.5%, and 1.5% per month and they differ on the grace period given to them. For instance, groups that repay weekly, are given one week before starting to repay their loans, whereas, groups that pay their loans twice in a month, they have two weeks grace period. Finally yet important is that the compulsory savings of 10% -15% characterize these groups based on the category of the group. Community banks focus more on relationship banking basing decisions on personal knowledge of customers' creditworthiness and keen understanding of business conditions in the communities they serve (UOB Credit procedures Manual, 2014).

#### 4.2. UOB's Financial Services Analysis of Loans extended to Rural and Urban groups of underprivileged

**Table 1: Table showing funds/Loans granted to underprivileged Groups between 2006-2014**

Year	Funds/Loans(Amount in Billions) Rwf	#Underprivileged
2006	9.5Bln	50000
2007	11Bln	51000
2008	11.4Bln	62000
2009	11.8Bln	65000
2010	14 Bln	71000
2011	14.6Bln	72000
2012	14.8Bln	75500
2013	15Bln	86000
2014	15.2Bln	89000

**Source:** UOB Credit Department Report 2006-2014

From the above table, UOB kept on extending loans to underprivileged both in rural and urban areas where in 2010, 71,000 customers from rural and urban were served 14 billion Rwandan francs. While a number of customers equal to 72,000 from both rural and urban were served with a loan of 14.6 billion. This figure was a bit higher than that of 2011 cause of intensive education made to customers sensitizing them about securing social guarantee loans and the trend kept up increasing due to campaigns made by UOB staffs extensively about loans that need not to be guaranteed.

Based on the financial analysis services of UOB, it indicates that there was a good progress since 2010-2014. Urwego Opportunity Bank was registering a good turn up of clients coming towards services of easily accessing loans that need no security and this accessibility was to all categories of the underprivileged groups be rural and urban ones. However, the major reason for the increase of loans extended to rural and urban groups of underprivileged was attributed to customers who did no longer fear to secure loans and who have come to know how to use loans by managing them properly.

The researcher's analysis disclosed that UOB financial services were increasing every year as the financial reports indicate; e.g. in 2010, the customers deposits were **3,823,588,776Rwf**, 2011 the customers deposits increased by almost 20% i.e from 3.8 Billion to 4.8 Billion and in 2012, there was an increment in percentage of 27% i.e from 4.8 B to 6.6 B

According to UOB Financial reports 2006-2014, the Urwego Opportunity Bank had good progress as in 2010, the UOB's net income was; **236,452,405 Rwf**, with total assets of **6,442,819,248 Rwf**, while in 2011, the financial statements showed a net income of **183,291,587 Rwf** and in 2012, the financial statements showed that the company made a profit of **399,387,475Rwf** and the total assets increased from; **6,442,819,248 Rwf**, **11,113,689,264Rwf** and **15,488,375,636Rwf** respectively (**UOB Financial data 2006-2014**).

In conclusion, therefore, the UOB Financial services analysis indicates a good trend in serving customers by giving them loans that resulted into wellbeing of their lives as shown by the loans disbursed to these groups in the table below;

### **4.3. Welfare Indicators Analysis for groups under the study**

The welfare indicators analysis for the groups under the study is considered for the period from 2010-2014 looking at these parameters; social welfare and Economic welfare. Based on the data collected from the groups using questionnaires, it is indicated that almost 78% of the respondents irrespective of being from CB and ACB both urban and rural said that they benefited from UOB loans by educating their children. Not only can one look at the number of parents who secured education loans for their kids but also on the loan sizes being secured by these underprivileged groups. Implying that, the more the loan sizes the more the expansion of the business and this is one typical example of social welfare analysis indicator of the groups under the study. However, the welfare indicators for these groups under the study can also base on the loan amount that was secured in 1998 and the loans that these groups are securing in the years of 2006-2014. A good example here is that a person in TCB group used to have 15000Rwf repayable in 4 months but now this person today is getting 150,000Rwf. This indicates that this client/person economically, his/her welfare improved.

Again, as the mission of UOB is to serve the underprivileged groups in Rwanda (Nyagatare and Nyarugenge) districts, to enable them attain dignity and hope, improve their lives and become contributing members of the society they are living in and the country at large. This has been attained as the data showed that those used to be paid social guarantee (mutuelle de Sante) by the government are now paying themselves.

Another indicator in these groups under the study is that they increased on the number of meals per day based on their responses on the number of meals before and after joining

UOB. Here, it was found that in rural areas based on table 5, the number of meals increased from 1 per day to 2 per day.

In addition, welfare indicator can be analyzed through increase in the groups' savings before and after the accessibility to loans. The study showed that some customers in rural areas had no savings at all before 1998 and after joining UOB, they started saving. This indicates that when one has started saving then, it meant that his/her economical welfare is improving.

Furthermore, the welfare indicator is analyzed through customers being able to pay themselves for Social guarantee funds (Mutuelle de Sante). This analysis was based on the questionnaire on how much these pay for their families and responded that they managed to pay 3000Rwf per family member where some were under the government scheme before joining UOB for loans. Hence, another good social indicator for groups under the study.

In addition, the groups under the study, their welfare are analyzed through increase on their annual income where before UOB, their annual incomes were low but after they joined UOB, their annual income increased significantly.

Finally yet importantly, welfare indicator analysis is based on the respondents' answer on the issue of dependency. Here, it was analyzed that majority if not all the respondents in said that they are no longer dependents'. Implying that, before securing UOB loans, they were dependents but after joining UOB, dependency became a history to the used to be customers.

#### 4.3.1. Underprivileged welfare/Education in their families

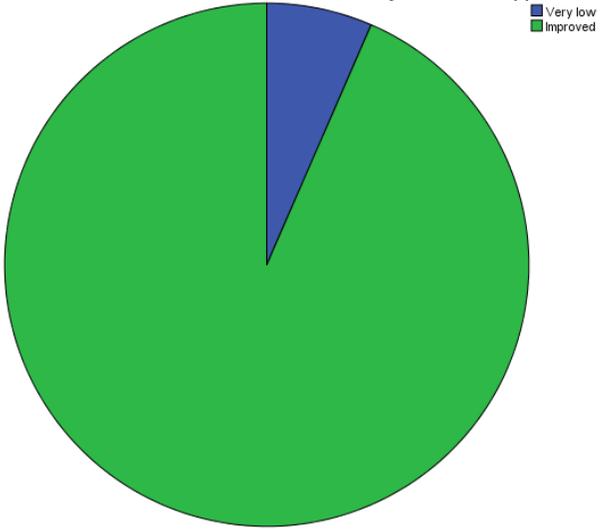
**Table 3: Education status in families after UOB support**

	Frequency	Percent	Valid Percent	Cumulative Percent
Very low	15	6.5	6.5	6.5
Improved	215	93.5	93.5	100.0
Total	230	100.0	100.0	

**Source: dataset/analysis**

Education factor includes among the indicators of welfare to the population, as the one of many ways that UOB use to promote its beneficiaries through supporting their businesses projects in underprivileged groups (persons), it is noted that 93.5% of them, the education status in their families was remarkably improved while 6.5% is very low.

Education status in the family after UOB support



#### 4.3.2. Underprivileged welfare/ number of meals per day

**Table 4: Statistics on meals you are taking in your family per day after UOB**

N	Valid	230
	Missing	0
Mean		1.95
Std. Deviation		.223
Kurtosis		14.562
Std. Error of Kurtosis		.320
Minimum		1
Maximum		2

a. Calculated from grouped data.

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**Source: dataset/analysis**

The mean of 1.95 i.e that two meals are taken per day by the families of beneficiaries as it was also indicated by the below table

**Table 5: Number of meals were you taking in your family per day after UOB**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1 meal	12	5.2	5.2	5.2
Valid 2 meals	218	94.8	94.8	100.0
Total	230	100.0	100.0	

**Source: dataset/analysis**

The beneficiaries' welfare is also indicated by the improvement of taking two meals in families those benefiting UOB support/loan, about 95% are taking two meals per day that is in interval of WFP, based on the WFP standards of number of meals to characterize the family status, the beneficiaries' family has a welfare after UOB support/loan

**Table 6: Welfare test on number of meals taken per day**

Group Statistics					
	Respondent	N	Mean	Std. Deviation	Std. Error Mean
b. How many meals were you taking in your family per day before UOB	Male	1	2.00	.	.
	Female	229	1.95	.223	.015

**Source: dataset/analysis**

### Independent Samples Test/

		t-test for Equality of Means						
		t	df	Sig. (2- tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
							Lower	Upper
meals were you taking in your family per day after UOB	Equal variances assumed	.234	228	.815	.052	.224	-.389	.493
	Equal variances not assumed	.	.	.	.052	.	.	.

**Source: dataset/analysis**

The welfare of underprivileged group is good as indicated by the test, the value 0.815 is greater than the value of  $\alpha=0.05$ , i.e. number of meals taken by families is representing the impact of UOB to its beneficiaries those underprivileged group which are accessing the support from the said institution

#### 4.4. The effect of UOB Financial services on welfare of selected groups

The effects of UOB financial services on welfare of selected groups under the study are good on the ground of the testimonies by the beneficiaries in urban or rural areas. This is based on the above welfare indicators analysis.

In addition, basing on the increase on the loans amount requested by the clients on daily basis, gives an indication that UOB financial services on customers/selected groups welfare is positive.

Also, based on the data interpretation and analysis, the annual income before and after joining UOB is a good effect of UOB financial services on the welfare of the selected groups.

Thus, the Table below is detailing the annual income of respondents groups

**Table 7: Annual income (Frw) in the years before and after joining UOB**

		Annual income (Frw) in the years before joining UOB	Annual income (Frw) in the years after joining UOB	% of increase
		Mean	Mean	
Respondent per Sex	Male	950,000	1,500,000	58
	Female	554,569	1,038,000	87

**Source: dataset/analysis**

In the Rwandan society, it is like a culture that men have more income than women, it is the same on this case, but it is clear that the percentage of increase of income for women is very high than men with 87% increase of the income after benefiting support from UOB.

**Table 8: Relationship of annual income before and after joining UOB**

		Annual income in the years before joining UOB	Annual income in the years after joining UOB
Pearson Correlation	Annual income in the years before joining UOB	1.000	.792
	Annual income in the years after joining UOB	.792	1.000
Sig. (1-tailed)	Annual income in the years before joining UOB	.	.000
	Annual income in the years after joining UOB	.000	.
N	Annual income in the years before joining UOB	230	230
	Annual income in the years after joining UOB	230	230

**Source: dataset/analysis**

The annual income for the underprivileged group was positively increased after joining UOB in relation with before joining UOB, it is indicated by the coefficient of correlation of 0.792 ( in above table). Therefore, below table is about the test of the annual income;

**Table 9: Test of annual income of underprivileged group in the years before and after joining UOB**

<b>Group Statistics</b>					
	Respondents	N	Mean	Std. Deviation	Std. Error Mean
Annual income in the years before joining UOB	Male	1	950000.00	.	.
	Female	229	554568.97	228012.551	29939.515
Annual income in the years after joining UOB	Male	1	1500000.00	.	.
	Female	229	1038000.00	508196.545	65607.892

**Source: dataset/analysis**

		t-test for Equality of Means						
		t	Df	Sig. (2- tailed )	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
						Lower	Upper	
Annual income in the years before joining UOB	Equal variance assumed	1.719	228	.091	395431.034	229969.776	-65075.498	855937.567
	Equal variance not assumed	.	.	.	395431.034	.	.	.
Annual income in the years after joining UOB	Equal variance assumed	.902	228	.371	462000.000	512414.016	-563338.079	1487338.079
	Equal variance not assumed	.	.	.	462000.000	.	.	.

**Source: dataset/analysis**

The P-value on the above table is 0.091 that is greater than 0.05, ie. The annual income is significantly contributing to the welfare of underprivileged group that is benefiting support from UOB for extending their businesses and other social activities.

**Table 10: Respondents on monthly saving rates after the years of joining UOB**

		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
	20	228	99.1	99.1	99.1
Valid	30	2	.9	.9	100.0
	Total	230	100.0	100.0	

**Source: dataset/analysis**

Regarding the table above, 99.1% of the underprivileged accessing support from UOB has increased their monthly saving at least on the rate of less than 20% of the monthly income, which was not the same case before joining UOB.

#### **4.5. Hypothesis Testing**

Null hypothesis (**H<sub>a</sub>**): Community banking/Microfinance institutions promote economic welfare of underprivileged groups in rural and urban areas.

Throughout data analysis and interpretation, several significant conclusions were made based on the analysis from the respondents 'views.

Concerning hypothesis No.1; the null hypothesis (H<sub>a</sub>) was certified basing on the results in the table 3 that shows the improvement in educational status after joining UOB, also, the impact of MFIs on the economic welfare of the poor based on hypothesis (H<sub>a</sub>) can be seen from table 4 where the respondents say that their number of meals significantly

increased from 1-2 per day. Again, savings rates as per hypothesis (Ha) are confirmed basing on the analysis on the mentioned data where respondents' say that their savings increased after joining UOB. Therefore, the assumption MFIs have no impact to the economic welfare of the poor/underprivileged groups is rejected.

Alternative hypothesis (**H<sub>0</sub>**): Community banking/Microfinance institutions do not promote economic welfare of underprivileged in rural and urban areas. Regarding the second hypothesis, the researcher discovered that it is important to reject the alternative hypothesis (H<sub>0</sub>) considering the respondents' views about the comparison between the savings rate before and after the UOB. Table5. also explains the improvement in the number of meals used to be taken from 1 meal per day before and 2-3 meals after the UOBs services. Hence, the assumption that MFI do not promote economic welfare of underprivileged group in urban and rural areas is rejected.

#### **4.6. Challenges Facing Underprivileged Benefiting from Urwego Community Banking/Opportunity Bank**

According to information from some of the clients conversed with by the researcher, it was discovered that underprivileged groups are facing various challenges among them are;

1. It was found that underprivileged group in Rwanda majority of them being women served by UOB and who constitute 85% of the total clients told the researcher in a conversation with them. How do you feel concerning accessing and using loans? They replied that the only thing missing is lack of self-confidence to engage in other business opportunities.

2. There is limited educational background as it is indicated by majority of these underprivileged cannot read or write their names during the disbursement of loans to them.
3. Having been occupied by the excessive household activities that hamper their business concentration.
4. Lack of collateral assets or properties to be used to secure larger loan guarantee. During this study, and the conversations with some individuals in the groups met, they said that collateral securities is now a big issue to allow them having bigger loans. Thus, making them to take time to expand their businesses.

It was disclosed that majority of the interviewed underprivileged group indicated that most of their time is taken by family issues that hinder their ability to improve on their income generating activities. It was further discovered that underprivileged responsibilities for childcare limits their mobility and forced them to generate income on a small scope of the environment.

#### **4.7. Challenges Faced by Urwego Community Banking/Opportunity Bank in serving the underprivileged groups.**

Majority of these have little knowledge for business transactions and this leading to these people losing customers. Thus, results in less returns which also leading to difficulties in their loans repayment.

There is also an issue of product/loans diversion, which is a big burden to Urwego Opportunity Bank clients/customers where majority of these borrowers divert their loans into other activities resulting in failure to repay. Urwego Opportunity Bank is faced by the challenge of dealing with majority of its customers being illiterates. Hence, serving

these customers costs much UOB in terms of training them and educating them on how to use loans effectively and efficiently. Another challenge is that majority of these customers being served by UOB are multi-borrowers. This affects them during repayment period as they are found burdened by the loans from different banks and their capacity to meet those loans is low hence ends up defaulting.

Again, UOB is faced by the challenge of the nature of its groups of customers who are not protected by the laws governing other cooperatives or associations that have statutes. Here, when one group member defaults in the group, s/he cannot sued to court because of lack of statutes but what others do is to repay for that person and continue persuading s/he to repay that money.

In addition, there is a big challenge of significant staff frauds that is due to cash handling by the staff going to serve the groups and sometimes end up escaping with the money. Hence, the targeted group remains somehow un served and this is an inherent risk to Urwego Opportunity bank Ltd.

Apart from data gathered using Questionnaire; the researcher got an opportunity to interact with some respondents but not all. This helped the researcher to obtain data that was not incorporated in the Questionnaire.

For example, the researcher, wished to know the impact of microfinance loans to families relationships after and before they joined Urwego Opportunity Bank. Here, most of the respondents told the researcher that due to their recognized contribution towards the development of their homes/families, peace and respect was developed among the couples and the whole family at large.

- The interviewed underprivileged groups (women) said that their role in developing their homes has reduced the conflicts that used to be in their homes due to being dependents' to their husbands on all the necessities.
- These interviewed underprivileged clients majority being women, they told the researcher that their spouses (husbands) started to show less resistance towards the enhanced economic activities of underprivileged/women due to such activities are seen as contributing much to the well-being of their families.
- In the interview with the underprivileged group, mostly being women, said that their spouses are now supporting them for involving in the activities. It was said by these interviewed groups that now husbands are appreciating their wives financial contributions to the family economy.
- Lastly, the interaction with underprivileged women commented that it was hard for them to speak in the public before joined Urwego Opportunity Bank, but today, they are able to address a group of audiences with tangible and views that they say can contribute to decision making even in their homes.

## **CHAPTER V: SUMMARY OF THE MAIN FINDINGS, CONCLUSION AND RECOMMENDATIONS**

### **5.0 SUMMARY OF THE MAIN FINDINGS**

1. Based on the information from the table above, it is observed that 99% of underprivileged group who are benefiting UOB support are female, because it is one its mandate to promote welfare of women through giving them loans to improve their businesses in different areas.
2. From the table 3, it is indicated that the education status of the families of those who are benefiting UOB support was improved after joining UOB, (93.5% accepted this statement) that was not the case before, it comes from the income after business on the underprivileged group, those families are able to pay school/tuition fees, school materials, transport. Etc. it is an indicator of welfare in the society. This is an indication that UOB has a big impact to the rural areas than in urban areas in terms of education.
3. The families of the UOB's beneficiaries were not on good nutritional level, but based on the results from our research indicates that 94.8% of beneficiaries' families are taking at least two meals per day after joining UOB. It was not the same case before, many used to take 1 meal in hard conditions, the analysis in the table 5 are detailing the information on number of meals taken per day.
4. From analysis, it is seen that annual income increased after UOB than before the UOB. This implies that after the establishment of UOB, majority of the

- underprivileged group had access to finance. Thus, resulting into the increase of annual incomes due to loans.
5. According to the analysis on the table 10, it was observed that savings rates increased after joining UOB, 99.1% are saving about 20% of their monthly income during their businesses, it is not sufficient because they to go beyond that rate because it can make sustainability of their business in case of limitation of UOB services. Hence, economically, loans disbursed to this category of people have a big impact on their social and economic welfare through monthly savings.
  6. Again, based on the analysis on social guarantee /Mutuelle de santé, it was found that due to UOB's assistance to the poor/underprivileged to access loans, there is no family that is accessing loans and is being paid for by the government on Mutuelle. All respondents said that they pay for themselves social funds for mutuelle de santé.
  7. Last but not least, the analysis on the indicators that UOB improved respondents economic welfare in different economical areas as indicated in above paragraphs

In fact, the “impact of Community Banking/Microfinance Institutions on improving the Economic welfare of the underprivileged groups in Rwanda” was attained in terms of improving underprivileged groups in education, accessing loans, changing in life style of the clients, increase on amount of loans, providing funds for their mutuelle de santé without depending on the government, increase in savings rate, providing themselves with all necessities and increase in the annual income.

## 5.1. CONCLUSION

The research study dealt with five variables; economic welfare of the underprivileged group/s in Rwanda, accessibility to financial services, Capacity to refinance loans, availability of collaterals and ability to save invest. Based on the set hypotheses and the problem statement depending on the assumption that community banking/microfinance institutions promote economic welfare of underprivileged groups in both Urban and rural areas, that underprivileged have now access to financial services, can have loans with or without collaterals, this help these groups to save and invest which in turn lead them to be able to refinance their loans. Therefore, based on the data interpretations and analysis; several conclusions were made.

Based on the first objective about the impact of community banking/Microfinance Institutions on the economic welfare of the underprivileged group, the researcher is with no doubt that, a big achievement was registered. This conclusion was got from the impact of number of children sent to schools by the underprivileged group after having joined UOB and got access onto loans.

The second objective was about the impact of UOB on the savings rates, annual income increase, the researcher concluded that, this objective was attained since beneficiaries are now able to save and expand in their businesses.

Therefore, basing on the discussed findings and discussions thereafter, it is imperative to note that , despite several problems ranging from lack of collateral securities, poor

knowledge of business preparations, limited education backgrounds, lack of confidence to the majority of the underprivileged groups being women , Urwego Community Banking has contributed a lot towards the economic and social welfare of the underprivileged groups in Rwanda. This will further improve the standards of living of these underprivileged groups as long as they are accessing loans which was a dream to most of them had it not been the establishment of Urwego Community Banking.

## **5.2. RECOMMENDATIONS**

Based on the data processing , interpretation, both quantitatively and qualitatively, the null hypothesis was rejected and a number of recommendations were drawn to reduce the problems hindering the performance of Urwego Community banking and some other Urban and rural economic development projects which can maximize all the possible opportunities for rural and Urban economic development are suggested by the researcher.

- 1.** UOB should improve on the access of loans to underprivileged groups by clearly showing the importance of these loans onto the lives of that underprivileged e.g able to pay themselves mutuelle de santé out of profits made from the loans.
- 2.** UOB should make sure that all the underprivileged groups are well trained on the management of businesses. This will solve the problem of misuse of loans, which resulted in defaulting due to failure to meet the obligations.
- 3.** UOB should increase on the amount of loans to the beginners' /new customers to let them expand their businesses easily other than spending a year or more still on the same amount. This hinders the development of the UOBs customers since they are given little money that cannot help a person to expand his/her business immediately.

4. Also, the researcher's recommendation is that UOB methodology should be reviewed to match the current situation. Thus, customers must deposit their repayments to the nearest UOB's partner banks and present bank slips to the lending officer of the area where those groups are working from to avoid the risks of misuse of customers' repayments by the staffs.
5. UOB should cater for other loan products other than confining more to groups' loans and little to individual loans. Individual loans have been not given easy ways of securing them like it is in the group loans and yet they are the loans that are required by many clients but limited by the processes required to get them.
6. UOB should improve access to financial services, including savings, credit, and insurance, collateralization of fixed and movable property, transfer of funds and more other financial instruments and transactions.
7. For comparison purposes, UOB should first have a benchmark survey and inform the targeted customers, field officers and all others beneficiaries together with local administrators on the results of the baseline. This speeds up the dissemination of the services easily.
8. UOB should make sure that laws protect its groups. That is, if one group member defaults and others pay for that defaulter then, UOB should make sure that their money is returned even if needs to sue that defaulter in court. Nevertheless, the way UOB groups are working is to run after the defaulters themselves without any assistance from the UOB because, these defaulters cannot be sued to court as they have no statute.
9. Urwego Opportunity Bank should always conduct surveys regarding market rates as to sell their products at a reasonable price that customers can afford.

- 10.** UOB should make intensive marketing of its products to the community and the public at large, if it needs to have a big outreach. The reason is that UOB is offering many products that can uplift the standards of the majority of the people but due to lack of enough marketing, its products are not sold to its expectation.
- 11.** UOB should create adequate relationship with the local authorities. This will help its activities to be facilitated by these local authorities in either making UOBs products known to the local communities and even during collection period where some clients will have been defaulted.
- 12.** UOB should make sure that targets for all the social indicators are set as they would help in measuring clients' level of outcomes.
- 13.** UOB should put in place a mechanism to collect the social data, data entry, analysis and report and have a baseline data to help in evaluating progress in Social performance Practices.
- 14.** UOB should conduct product usage analysis using client profile data (Age, Gender, and Economic status, Occupation) to have an in depth understanding of client behavior and needs.
- 15.** UOB needs to monitor client retention rates and understand the reasons for clients' exit.
- 16.** UOB should make sure that its services are brought near to the clients by opening branches in deep areas where these clients can take short distances to get the services.
- 17.** UOB should make sure that costs of loans are reduced so, as to allow many underprivileged to access them. In addition to that, there should be a variety of products offered by UOB at a reasonable price that fits every poor person.

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## **APPENDIX 1: UNDERPRIVILEGED SURVEY QUESTIONNAIRE**

### **KINYARWANDA VERSION**

#### **KAMINUZA Y'URWANDA**

#### **ISHURI RY'UBUCURUZI N'UBUKUNGU**

#### **ISHAMI RY'UBUKUNGU N'ICUNGAMUTUNGO**

#### **P.O BOX 117, HUYE RWANDA.**

Ndumunyeshuri wiga muri kaminuza y'u Rwanda urimo ukora ubushakashatsi, bugamije kurangiza amasomo y'ikiciro cyanyje cya Gatatu cya Kaminuza (master's program/maitrise).

Nuko rero ibisubizo mutanga n'ingirakamaro kandi bizashyirwamunyandiko bibikwe neza.

#### **MURAKOZE KUMFASHA KURANGIZA AMASOMO YANJYE**

#### **IMANA IBAMPERE IMIGISHA**

#### **KALISA Celestin**

#### **AMABWIRIZA**

Ku bibazo bifite ibisubuzo byinshi, musabwe gukosora imbere y'igisubizo mwahisemo. Ku bidafite ibisubizo byinshi murasabwa kwandika mumagambo arambuye kumyanya yateganyijwe.

#### **IBIRANGA GUSUBIZA**

Igitsina

Gabo

Gore

1. Ese wari wunvaho banki yitwa Urwego Opportunity Bank Ltd?

Yego

Oya

2. Niba ari Yego iyo banki y'Urwego igufasha mubiki cyangwa yagufashije iki?

- a. Yanfashije kwigisha abana
- b. Infansha kubona inguzanyo
- c. Yanfashije Kubaka inzu
- d. Yanfashije kubo na akazi

3. Ese kwigisha mu mashuri y'abagize umuryango wawe bimeze bite ugereranyijemambereyuko iyibankiy'Urwego uyijyamo?

- a. Nezacyane
- b. Ntacyahindutse
- c. Nabi
- d. Neza

4. Ese murya kangahe k'umunsi mu muryango wawe?

- a. Incuro imwe gusa(1)
- b. Kabiri ku munsi(2)
- c. Birenze gatatu(3)
- d. Kane ku munsi(4)

**5 (a).** Gereranya amafaranga ku mwaka waba warinjizaga mbere yuko ugana Urwego na nyuma yo kurugana

- i. Mbere y'umwaka wa 1998
- ii. Nyumay'umwaka wa 1998-2010

**(b)** Ese w'izigama amafaranga angahe ku kwezi kw'ijana (%)?

- a. Mirongoitanu (50%)
- b. Hejuruya 50%
- c. Mirongo itatu (30%)
- d. Makumyabiri(20%)
- e. Muniya (20%)

**6.** Ese niki cy'ikwinjiriza amafaranga murugo rwawe?

- a. Ubucuruzi
- b. Umushahara
- c. Ibyongurisha biva ku buhinzi
- d. Ntana kimwe mubyavuzwe haruguru

**7.** Nikihe kiciro cya Mitiwele/mutuelle ubaruri rwamo?

- a. Ndimubo leta irihira
- b. Ndiha ibihumbi bitatu (3000Rwf) k'umuntu
- c. Ndiha ibihumbi birindwi (7000Rwf) k'umuntu
- d. Ntana kimwe mubyo haru guru

**8.** Watangiranye n'inguzanyo yangahe kuva utangiye gukorana n'Urwego?

- a. 10000Rwf-15000Rwf
- b. 20000Rwf-50000Rwf
- c. 100000Rwf -150000Rwf
- d. 200000Rwf-500000Rwf
- e. 1000000Rwf no kuzamura

Niba kandi waratangiranye nayari hejuru yaya watubwira umubare.....

Kandi niba waratangiranye nimwe mu mibare yavuzwe haruguru , waba ugeze kurangahe

uyumunsi?.....

**9.** Ese niki cyakwerekana ko banki y'Urwego hari cyo yakujyejeho mw'iterambere ryawe?

- a. Imiberehoyanjyeyarahindutse
- b. Sinkisabiriza cyangwa ngontege amaboko ngo bampe
- c. Nsigaye niha icyonshatse cyose
- d. Ubunigisha abana banjye kandi byari byarananiye

**10.**

Uyumushakashatsiaragusabakugirainamawatangakugirangoserivisizabankiy'Urwegozirus hehokubanziza.

**MUGIRE AMAHORO Y'IMANA**

## **APPENDIX 2: UNDERPRIVILEGED SURVEY QUESTIONNAIRE**

### **ENGLISH VERSION**

UNIVERSITY OF RWANDA

COLLEGE OF BUSINESS AND ECONOMICS

FACULTY OF ECONOMICS AND MANAGEMENT

P.O BOX 117, HUYE RWANDA

Dear sir/Madam,

I am a student at the University of Rwanda in the master's program in the faculty of Economics and Management pursuing Masters in Business Administration, Finance option. This research project is for accomplishing my master's program. It is purposely and strictly for academic use only. The information provided will be kept confidential.

Thank you for your maximum cooperation.

**KARISA Celestin**

### **INSTRUCTIONS**

For questions with multiple choice answers, the researcher requests you to tick against each choice you make/choose. While for questions that do not have multiple choices, you are required to write your views in the spaces provided.

**Respondent's particulars**

SEX

- i. Male
- ii. Female

Age

**Qn1.** Have you ever heard about UOB?

- i. Yes
- ii. No

If your answer is yes, in which ways have you benefited from UOB?

- a. Education
- b. Employment
- c. Constructing a house
- d. Expanding my business from 500,000Rwf and above

Any other specify.....

**2 (a).** How was education status in your family before and after UOB support?

- Very low
- Worse
- Improved
- No change

**(b)** How many meals were you taking in your family per day before UOB?

- 1 meal
- 2 meals
- 3-4meals

**3(a)** What was your annual income in the years of;

- Before the year 1998
- After the year 1998 -2014

**(b) i)** What was /is your monthly saving rate before the year 1998?

ii) What is your saving rate after 1998-2014?

**4.** What is the main source of your income in your family?

- a. Business
- b. Salaries and wages
- c. Selling agriculture products
- d. None of the above

If there is any other source a part from the mentioned, specify

.....

**5.** To what extent has UOB facilitated you to access loans in comparison to other financial institutions in Rwanda?

- a. Bigger extent
- b. Greater extent
- c. Less extent
- d. Beyond my expectations

**6.** What is the impact of accessibility to loans in your family?

- a. Accessibility to medical services easily
- b. Improvement in education of my family members
- c. Changing meals-increasing number of meals
- d. Expansion of the Business

**7.** Which category of mutuelle/social guarantee does your family belong?

- a. Paid by the Government
- b. Paying 3000Rwf per family member
- c. Paying 7000Rwf per family member
- d. None of the above

**8.** What amount of loan did you start with since you joined UOB?

- a. 10,000Rwf-15000Rwf
- b. 20000Rwf-50000Rwf
- c. 100000Rwf-150000Rwf
- d. 200000Rwf-500000Rwf
- e. None of the above

If you started with more than the mentioned figures, specify.....

**9.** What indicators show that UOB improved your Economic welfare?

- a. Life style was totally changed
- b. No longer dependant
- c. Providing myself with all the necessities
- d. Educate my kids which was hard for me
- e. None of the above

**10.** The researcher is requesting you to suggest the possible ways in which you think

UOB's services can be improved.

**Thank you very much**