UMURENGE SACCO AS A TOOL FOR FINANCIAL INCLUSION

A Case Study of Nyaruguru District, Rwanda

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ABSTRACT

The purpose of this study entitled Umurenge Savings and Credit cooperatives (SACCO) as a tool for financial inclusion in Rwanda (case study of Nyaruguru District) was to investigate the factors affecting the financial inclusion of these Microfinance Finance Institutions (MFIs) adopted in 2009 by the government of Rwanda as an instrument for financial inclusion. The research used quantitative data analysis. The survey was selected because of its appropriateness in obtaining the required quantity of data in running quantitative analysis. The research tool was the questionnaire. The target population was the elected SACCO’s leaders (Boards of Directors and supervisory committee members) of the 14 Umurenge SACCOs. Following the Rwandan cooperative law, there are for each SACCO, 7 members of Boards of Directors and 3 members of Supervisory Committee. The research used a probability sampling. The sample size was 90 elected leaders from 10 SACCOs. The researcher both used primary and secondary data collection method. The secondary information source included collection and analysis of data from report, published material and information from the Rwanda Cooperation Agency (RCA) and the National Bank of Rwanda (NBR). The researcher used descriptive analysis to study the distribution of the variables. The study makes the following key contributions to knowledge in addition to determining factors affecting the financial inclusion of Umurenge SACCO: First, a clear guidance to an innovative approach programme to implement national policies and strategies to achieve the MDGs and Vision 2020; which will facilitate the transformation of the current impoverished Rwanda to a middle income country and a financial services center in the region. Second, this analysis presented the findings of an innovative participatory consultation that can be used to directly underpin and inform any local financial inclusion initiative. Finally, this work showed that Umurenge SACCO can be an appropriate instrument for financial inclusion if the following key challenges are addressed: Strengthening SACCO management in terms of functions such as administration, governance and accountability; Ensuring that SACCOs have the facilities and equipment needed to facilitate their activities; Providing a broader base of products and services specifically designed to meet the needs of all SACCOs, members including the poorest of poor and Putting in place measures aimed at consumer protection.

Key words: Microfinance Institution, cooperatives, voluntary association, financial Inclusion

INTRODUCTION

Umurenge SACCOs is a government initiative aimed at increasing the financial inclusion to Rwandan citizens. The concept of Umurenge Savings and Credit Cooperatives (Umurenge SACCOs) was based on an understanding that banks and other financial institutions were more concentrated in urban areas whilst the majority of the Rwandan population lives in rural areas and totally excluded from the formal financial institutions. Banks and other financial institutions were also not able to provide financial services that were ideal to serve the poorest of poor. Establishing a SACCO in every Umurenge was
aimed at bridging this gap as planned by Umurenge SACCO strategy (MINECOFIN, 2009). The objective was to encourage local citizens to use financial institutions to enable them to save and access loans and ultimately providing them with the opportunity to build financial security that would better enable them to manage financial shocks and to invest in business opportunities. This would, in turn, allow them to move out of chronic poverty and improve their livelihoods as planned by the first phase of the Economic Development of Poverty Reduction Strategy (MINECOFIN, 2007). Different government departments and non-government organizations, especially those working in the areas of decentralization and local governance, have made efforts to mobilize Rwandans towards this program. The National Bank of Rwanda (BNR) is responsible for the regulatory framework within which Umurenge SACCOs operate – setting operating standards, providing trading licenses and ensuring that the Umurenge SACCOs conform to expected standards.

Despite the apparent success of Umurenge SACCO program, there are a number of important issues that need to be addressed in order to improve Umurenge SACCOs’ performance and to make it more inclusive. Many of them suffer from weaknesses in their governance, which is rooted in a poor sense of cooperative ownership among members. Explaining this issue requires looking at the history of how these institutions have been formed: unlike more authentic cooperative institutions in countries with developed SACCO sectors, Umurenge SACCOs and indeed even some of the non-Umurenge SACCOs are institutions that were established and organized by parties other than the members themselves. The expectation is that once formed, these institutions would then be accepted and ran by the members as if it was theirs. But this has not yet been realized: members do not quite understand what these institutions are for, what the benefits of being a member of a SACCO are, and what their membership actually entails. Even more importantly, the parties and stakeholders involved in the promotion of SACCOs also seem to have limited understanding of what is needed in order to make SACCOs work. Exacerbating these problems are the severe capacity constraints among SACCOs, especially among Umurenge SACCOs. The quality of leadership and management, i.e. the control and governance of institutions; The institutional systems/processes required for institutions to function and achieve their objectives as financial service providers; The facilities they need to deliver services (e.g. building quality and location). These issues critically affect the current ability of these young financial institutions to deliver inclusive financial services and effectively reach all low-income groups as underlined by the Finscope survey in 2012 (Fin Mark Trust, 2012).

Statement of the Problem

The ultimate objective of Rwanda’s long term development plan is to transform the country into a middle-income country and an economic trade, communication and financial services center in the region by the year 2020. Towards the achievement of this, the GoR has recently adopted the second phase of EDPRS (MINECOFIN, 2013) with the Financial Sector Development as one of its key components.

Indeed Rwanda’s economic development agenda can’t be achieved without a financial sector that is effective, in particular that is capable to expand access to credit and financial services, and to enhance saving mobilization and to mobilize long-term capital for investment as underlined by the National savings Mobilisation strategy (MINECOFIN, 2009).

No economic development will be possible as long as more than 40% of the rural population is totally excluded from the financial services, even from informal ones.

The population of Nyaruguru district take the lead with 43% totally excluded from the financial services (FinMark Trust, 2012).

It is clear that economic transformation and growth will need to be accelerated if the Rwandan Vision 2020 must be realized. The national target of 90 percent inclusion for adults is expected by 2020 and the EDPRS target of achieving a gross national savings of 18% of GDP to attain a gross national investment target of 30% of GDP (National Institute of Statistic of Rwanda, 2012). Therefore, this Study is meant to find out how the Umurenge SACCO in Nyaruguru District should contribute to enhance or achieve financial inclusion especially in line with vision 2020 of Rwanda.
Specific Objectives of Study

i. To determine the drivers of the current performance of Umurenge SACCO in terms of financial inclusion.

ii. To assess how proximity to Umurenge SACCO affects the financial inclusion among the targeted beneficiaries.

iii. To assess how product development process effects on the financial inclusion.

Scope of the Study

The study focused on the drivers that contributed to the financial inclusion for all categories of the Rwandan population through Umurenge SACCO. This research work focused on the period from year 2009 to 2012; due to the fact that UMURENGE SACCO effectively started in the year 2009. The study was conducted in Southern Province in Nyaruguru District in ten sectors which have a high number of SACCO members. The sectors of Nyabimata, Ngoma, Nyagisozi, Cyahinda, Rusenge, Muganza, Kivu, Kibeho, Rusenge and Munini were used in the sample.

- Financial and institutional sustainability as a means of providing access to financial services over time;
- Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).

Determinants of Financial Inclusion

Broadly viewed, the overall objective with financial sector development in Rwanda would be to decrease the proportion of the population who are financially excluded. In 2008, Rwanda FinScope survey (Fin Mark Trust, 2012) illustrated that:

i. More than half (52%) of Rwandan adults (18 years or older) did not use any financial product or service.

ii. 39% used financial mechanisms not provided by regulated financial institutions to save, borrow, manage their financial risks or to send money (informal mechanisms)

iii. 21% used financial products or services provided by regulated financial institutions (formal financial services or products) to transact, save, borrow and mitigate financial risks.

As any Government’s objective is to channel as much of the money in a country through the formal financial system, financial sector interventions are aimed at increasing the uptake and usage of financial products offered by regulated (or formal) financial...
institutions (i.e. to increase formal financial inclusion).

This could be achieved either through increasing access to financial institutions or by increasing uptake and usage of financial services and products provided by these institutions. In recent years, the focus was on the development of a stronger and more effective banking system, and the mobilization of the Rwandan population to save for the future.

The latter was pursued by creating an appropriate environment and developing institutions that could provide access to members of the population who would not normally save in the formal sector and would generally not use formal financial institutions mainly due to proximity and deposit restrictions.

The Umurenge Savings and Credit Cooperative (MINECOFIN, 2009) initiative was launched in 2009 with the resolution to reach out to areas that were unattractive to banks. The aim was to establish at least one financial service provider in each administrative sector.

In order to provide appropriate products and services, financial service providers need to have a clear understanding of who the consumer is and what factors determine whether or not the consumer will use financial products – i.e. more appropriate offerings of financial services and products can only be developed if we understand the determinants of the uptake and usage of financial products and services.

The realization of financial inclusion is only effective or functional if consumers:

1. **Physical location of access to financial institution**

According Kumar (2005), there are indeed differences between the availability of financial services between regions of the country, placing financial institutions in each region or municipality in itself is not a sufficient condition for broadening access.

Even if there is a financial institution present in a given location, its clients may be biased towards the better off of the institution. Conversely, areas benefiting from dense networks of financial institutions may still have pockets of the underserved.

According the Rwanda Finscope 2012 survey (Fin Mark Trust, 2012), assessing the geographical distribution of individuals 18 years or older in terms of the geographical distribution of formal financial institutions in Rwanda led to the conclusion that physical access or proximity to financial institutions does not serve as a major restriction to formal financial inclusion.;

- 88% of adults live within a 8km radius of a commercial bank branch or bank Automatic Teller Machine (ATM) access point;
- 60% within a 5km radius;
- 68% of adults live within a 8km radius of a microfinance institution;
- 44% within a 5km radius.

91% of adults live within a 5km radius of an Umurenge SACCO; 56% live within a 3km radius.

However, Monroth (2006) pointed out that physical accessibility of formal financial is one of the barriers to enter formal financial services for low income.

They adversely highlighted that lack of bank branches in the neighborhood can prevent the unbanked from gaining access to formal financial sector services at all, while remote branch locations increase the costs of access for the poor.

The World Bank (2008) as well report that geography or physical access is one of the major constraints to financial access. The bank highlighted that there are different opportunities that financial institutions provide to their clientele as a way of tackling this issue. Some institutions allow clients to access services over the phone or via the internet, others require them to visit a branch or automated tell machine.

The World Bank proposed that ideal measure would indicate the average distance from household to branch (or ATM), the density of branches per square kilometer or per capita, providing an initial, albeit crude indicator.

In addition, lack of adequate infrastructure could act as a hindrance in banking outreach. The absence of formal financial institutions in close proximity hinders banking outreach. For low-income households, the costs of visiting a branch could be very exorbitant.

Such costs include not only transportation costs, but also the loss of daily wages. According to Ghosh (2012), as a consequence, many low-income people in remote areas where such facilities are not available within a reasonable distance tend to rely more on informal markets.
2. Financial product development

Traditionally, financial institutions offered a uniform credit and saving products for all their customers. This approach relies on the lending methodology taking into consideration minimization of risk and costs for the financial institutions by offering loan terms and conditions favorable to them. Nevertheless, this supply driven approach is being replaced by a more market and client driven approach as a result of increasing competitions in the financial sector, increasing client dropout rate resulting from inflexibility of current product offering and client sophistication. The demand for financial services differs over time and across rural poor and low income households. These groups of people have a large demand for products that respond to their specific needs. For example rural household require financial services that finance their livelihood activities, for consumption smoothening, and to finance some lumpy nonfood expenses for purposes such as education (e.g., school fees), housing improvements.

Empirical studies have been conducted on factors that determine the success of the new product in the market place. The factors that have been highlighted include product offered, development process, corporate environment, marketplace (Storey, 1996); organization, resource allocation, formalization, preliminary assessment and design testing, market research and potential, business/financial analysis and project updates market synergy, marketplace and launch effectiveness (Edgett, 1994) and finally internal marketing and synergy, technological advantage, market research, responsiveness, intermediary support, direct e-mail and difference between sectors and products (Easingwood, 1995). In this research, the emphasis will be put on factors that are of common interest such as product offered, development process, market analysis and product launch.

3. Products offered

Financial sector products are easily copied, therefore, product offered should have a relative advantage that is perceived as being superior. Storey (1996) suggested the product should ‘offer unique or superior benefits to the consumers, providing benefits not previously available, satisfying clearly identified customers needs, solving customers problems with existing products’. Additionally a product should be perceived as of quality. Technical and functional quality must be recognized in the financial service industry. The technical quality is perceived in what the people receive while the functional quality is in how people perceive the product being offered.

4. Development process

Development process is a crucial step in success of the financial products. The process involves a good communications between all functions during the development process (Storey, 1996) and high level of inter-functional cooperation coupled with development team that is highly talented and motivated backed by strong, visible support by senior executives (Edgett, 1994). A strong internal marketing, to raise awareness within the company, is also needed. The internal marketing is concerned with the support given to staff (Easingwood, 1995).

To be able to offer good service, staff must fully understand the services, the support systems and details about direct competitors.

5. Market research

It is very important to understand customer needs and preferences, because it enables a company to design products that fit the different profile of the clientele. However, Edgett (1994) highlight that many companies execute this part of the development process poorly.

The reason mostly given is lack of resources either in term of money or time, but this has lead to failure of a service to produce the desired results. The market research helps to respond fast to market opportunity (Storey, 1995), change the service design before it becomes expensive to reverse and permit development of a more targeted and effective launch plan.

6. Product launch

It is not good enough to simply develop a service and announce that it exists. Edgett (1994) has found that
successful new services tend to integrate the launch into their development process, while Storey (1996) suggested that the launch strategy is a bridge between development process and marketplace and a strong launch effort coupled with appropriate targeting and pricing strategies lead to success. More so, making the launch a part of the development stage will preempt the tendency to develop a product in isolation from its marketing needs. Therefore, a good service which is not properly presented to the targeted customers has a harder time to succeed.

7. Government policies

Good legislation and financial policies lead to confidence in the system and confidence provides the population the needed trust and feeling of security needed to invest. There is real need to instill the confidence in the system to encourage those in the informal sector to move into the formal banking and financial system, which ultimately helps build the base of capital from which the country can draw for development investment.

The government policies have an important role to play in promoting financial inclusion in the country. The government needs to take on a leadership role and focus the attention of the financial services industry and community-based financial institutions on this issue.

The government provides a regulatory framework for the financial services sector to create an enabling environment Burgess (2005) Government regulation on banking sector affect bank location and lending practices to favor the poor. Their research demonstrated that bank borrowing among rural labor households was higher in states that have seen a more rapid expansion of rural branches. They concluded stating that the regulation of banking sector plays a role in direct bank credits towards the poor, and that easier access to bank credit and saving opportunities was associated with significant decline in rural poverty.

However, a word of caution was provided by the authors that to achieve this reduction in poverty the government has to invest substantial resources in the development of a state banking sector. The World Bank (2008) reports that Government policies should focus on building sound financial institutions, encouraging competition (including foreign entry), and establishing sound prudential regulation to provide the private sector with appropriate incentive structures and broaden access. Governments can facilitate the development of conducive financial infrastructure and encourage adoption of new technologies, but attempts at direct intervention (through subsidies, for example, or ownership of financial institutions) are more likely than not to be counterproductive. When the policy related finance support is inadequate, not all households wishing to have access to financial services can obtain it. Therefore, it is necessary to provide a basic financial facility for all households.

8. Customer’s perception

Role perception has been identified as a factor affecting financial inclusion (Frimpong, 2008). He assesses that role perception explain the difference between man and women involvement in financial decision making in the households. The role perception is described by traditional orientations, where husband provides for the family, therefore making banking decisions and modern orientations, where both men and women share responsibilities of works and financial decisions.

Other authors further add, that the modern orientation is preferred in financial environment. Although this situation is deepened by economic alteration, traditional orientation still dominated in some African countries. Since financial services are intangibles and difficult to evaluate like any services, according to (Frimpong, 2009), customers adopts different evaluation process,. This evaluation process are classified into three quality characteristics groups such as quality attributes (what customer sees, feels or touches and evaluates before purchase), experience quality (assessed during and after consumption) and credence qualities (virtually impossible to evaluate even after consumption). Therefore, management of financial institutions translated customers’ knowledge in their practice so as to develop product or service positioning strategy that remains in the mind of the customers. This requires a comprehensive understanding of the customer’s needs and the market segment such as different in age, gender, experience level and classes.

When customers have little self confidence in evaluating the category of service and
product/service is new, they perceive risk to be greater and therefore, it is replicated on their purchasing process. Frimpong (2009) associates greater risk to high price and in financial institution, high price is associated to high interest rate. In addition, customer’s prior experience with service provider or with a competing service in the same industry affects their expectations about a service. A customer who has no relevant prior experience with a service provider base his judgment on words of mouth, new stories or firm marketing efforts.

Saving and Credit Cooperative on the financial inclusion

SACCOs are very important for business and investment growth in the economy due to the fact that they have impact on capital accumulation including human and physical capital, and on the rate of technological progress. Also it has a direct impact on the poverty reduction, by widening access to the poor. These impacts/effects arise from the intermediation role provided by financial institutions which enable the financial sector to; mobilize savings for investment, facilitate and encourage inflows of foreign capital and optimize the allocation of capital between competing uses, ensuring that capital goes to its most productive use. Levine (1997) identifies five basic functions of financial intermediaries which give rise to these effects. These effects are ; Savings mobilization, Risk management, Acquiring information about investment opportunities, Monitoring.

Savings mobilization: The mobilization of savings is perhaps the most obvious and important function of the SACCOs. The provision of savings facilities or transaction bank accounts enables households to store their money in a secure place, and allows this money to be put to productive use i.e. lent to individuals or enterprises to finance investment, thus encouraging capital accumulation and promoting private sector development.

Lack of access to secure savings facilities leads people to save in physical assets, or store their savings at home. In addition, the returns on investment can create positive expected returns for the savers, which may in turn increase savings. It can also facilitate the development and adoption of better technologies. McKinnon (1973) a farmer who couldn’t afford a particular investment out of his own savings – he needed to borrow in order to buy some piece of equipment (i.e. to invest in “new technology”) which would increase his productivity, and enable him to earn a higher income thereafter. Thus by mobilizing savings, and hence increasing the availability of credit, SACCOs facilitates investment in new technologies across the urban and rural economy, increasing overall productivity. Credit may also be made available to finance investment in education or health, and can thus promote the accumulation of human capital (Kevin Cowan & Jose De Gregorio, 1996) . Thus savings mobilization can have a significant impact on growth by increasing investment, productivity and human capital. Savings facilities can also play an important role in reducing risk and vulnerability for the poor.

Risk management : (a) Liquidity risks- any projects or enterprises require a medium commitment of capital, whereas most savers prefer to have the option to draw on their savings, or move them into another investment opportunity, should the need arise i.e. they like their savings to be ‘liquid’. Because SACCOs combine many households’ savings, and because savers usually won’t all want to withdraw their money at the same time, this allows SACCOs to simultaneously provide small to medium-term capital for investment, and liquidity for savers (Levine, Ross, 1991). (b) Risk diversification: Investing in an individual project is riskier than investing in a wide range of projects whose expected returns are unrelated. As savers generally dislike risk, SACCOs facilitate risk diversification such as banks and stock exchanges allow investments to be made in riskier projects with higher expected returns in aggregate (Gilles , 1992) . This again increases overall investment returns, and improves capital allocation, with a subsequent impact on growth.

Acquiring information: Individual savers are unlikely to have the time or capacity to collect process and compare information on many different enterprises, managers and market conditions before choosing where to invest. Thus high information costs may prevent capital from flowing to its highest value use. In addition, they will be less keen to invest in activities about which they have little information. So the creation of financial intermediaries like SACCOs such as banks and fund managers, who will collect this information on behalf of many investors, and share the costs of doing so between them, will
improve resource allocation and increase investment. They may also increase the rate of technological progress by identifying and thus allocating capital towards those innovations with the best chances of succeeding (King, Robert G. & Levine, Ross, 1993).

**Monitoring borrowers, and exerting corporate control:**
Similarly, the ability of SACCOS to monitor the performance of enterprises on behalf of many investors – who would not otherwise have the resources to do so individually – and to exercise corporate control (e.g. lenders holding meetings with borrowers to discuss business strategy), helps to ensure that investors receive returns that properly reflect the enterprise’s performance (i.e. insures they are not being defrauded by the firm’s managers as a result of their lack of information), and creates the right incentives for the managers of the borrowing enterprises to perform well.

**Facilitating exchange:** Another importance is that, SACCOS as other financial intermediaries in the financial sector facilitates transactions in the economy, both physically by providing the mechanisms to make and receive payments, and by reducing information costs in the ways outlined above. So by providing financial intermediation in this way, the SACCOS may reduce transactions costs, and facilitates the trading of goods and services between businesses and households. SACCOS are the most accessible by the poor people or low income earners in the both rural and urban settings. Apart from being owned by the members themselves, they charge low rate of interest on the loans and no collateral is required to access loans.

SACCOS, also provide a voice of poor in the policy making since some representatives are participated in higher authorities including at their apexes in those ways are offering their views which are collected together to the formation of policies.

SACCOS are have created employment, directly and indirect to most of the citizens hence improving economic standard of rural and urban people. SACCOS is facilitating financial services, as it offers the most wide spread source of financial services for low income people in both rural and urban areas. In some rural areas this is the main source of financial services.”

SACCOS offers a way of poor community producers in general, and ambitious and educated in cash production, creating an avenue for upward mobility and political advancement.

**In enhancing women participation:** SACCOS have opened various chances to women participation in the leadership, membership and benefits from SACCOS activities. Thus empowering women in leadership and economic and social wellbeing. SACCO increases the options and self-confidence of poor households by helping them to expand and diversify their enterprises, to decrease risks, to smooth consumption, to obtain higher return on investments, to improve management and increase their productivity and incomes, to store their excess liquidity safely and obtain returns on their savings, to escape or decrease exploitation by locally powerful, and to conduct their businesses with dignity. The quality of people’s lives improves. Children are sent to school, and housing, health and self-confidence improve. In addition, the economic activities often create jobs for others; among those who gain employment in this way are some of the extreme poor.

On the other hand, SACCOS are among the financial intermediaries in the financial sector since they are very important for business and investment growth in the economy. Also it has a direct impact on the poverty reduction, by widening access to the poor. These impacts/effects arise from the intermediation role provided by financial institutions which enable the financial sector to; mobilize savings for investment, facilitate and encourage inflows of foreign capital and optimize the allocation of capital between competing uses.
Conceptual Framework
The three important variables of focus were: Enabling Environment, Organizational factors and Individual perspectives.

Moderating variables:
Government policies
Customer’s perception

Independent variables
Enabling Environment
Financial product development
Financial literacy
Easy Access
Uptake
Usage

Dependent variable:
Financial inclusion

In order to provide appropriate products and services, financial service providers need to have a clear understanding of who the consumer is and what factors determine whether or not the consumer will use financial products – i.e. more appropriate offerings of financial services and products can only be developed if we understand the determinants of the uptake and usage of financial products and services.

METHODOLOGY
This work attempted to determine the factors affecting financial inclusion of Umurenge SACCO in Nyaruguru District. The research used quantitative data analysis. The survey was selected because of its appropriateness in obtaining the required quantity of data in running quantitative analysis (Hair, 2006). Surveys are also standardized, allowing for easy comparison. It is an effective tool for getting cause-and-effect relationships” (Ghauri, 2005).

By studying the repeated cross-section of observations, panel data are better suited to studying dynamic changes (Gujarat, 2003).

Target Population and sample size
In research, target population is the entire set of units for which the survey data is to be used to make inferences. Therefore, the target population was the elected leaders (boards of directors and supervisory committee members). Following the Rwandan cooperative law, there are for each SACCO, 7 members of boards of directors and 3 members of supervisor committee.

<table>
<thead>
<tr>
<th>Sector/SACCO in Nyaruguru District</th>
<th>Boards of Directors</th>
<th>Supervisor Committee</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>RURAMBA</td>
<td>7</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>BUSANZE</td>
<td>7</td>
<td>3</td>
<td>10</td>
</tr>
</tbody>
</table>
Data Collection
The researcher collected both primary and secondary data collection method. The researcher sent the questionnaires to the Umurenge SACCO leaders who delivered by hand to the Board of Directors and the Supervisor committee the questionnaire. The researcher also used secondary data in collection of the information. The researcher collected reports from the SACCOs stakeholders to have a more detailed in site about the functioning and execution of this programme. These information source included collection and analysis of data from report, published material and information from the Rwanda Cooperative Agencies and National Bank of Rwanda.

Gender of the respondents
The respondents were asked to provide their gender. The results are reflected in table 5.

Reliability and validity
Reliability is the degree of consistency between two measures of the same thing. To achieve reliability, pretesting the Questionnaire, In order to establish the reliability of the instrument, the researcher conducted a pre-test of the questionnaires to 10 elected leaders of one Umurenge SACCO. Cronbach’s alpha coefficient was used since it is widely used in social science research. A pretest of the questionnaire to prove its reliability at the already set standard of 0.7.
Table 4.1: distribution of Respondents by age group

<table>
<thead>
<tr>
<th>Age blanket</th>
<th>Frequency</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>14-24</td>
<td>12</td>
<td>13.3%</td>
</tr>
<tr>
<td>25-35</td>
<td>24</td>
<td>26.7%</td>
</tr>
<tr>
<td>36-46</td>
<td>30</td>
<td>33.4%</td>
</tr>
<tr>
<td>47-57</td>
<td>13</td>
<td>14.4%</td>
</tr>
<tr>
<td>57-66</td>
<td>10</td>
<td>12.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>89</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Compiled from the field, 2014

As reflected in table 4.1 more than a half of the respondents are between 25 years old to 46 years old. This implies that the SACCO leaders are constituted by youth and people in the middle age.

**Education background of the respondents**

The respondents also provided their education background. Figure 4.2 shows that the 62 respondents have secondary education while only 20 have completed university.

**Figure 4.2: Educational level**

Source: Compiled from the field, 2014

**Drivers of performance of Umurenge SACCO in term of financial inclusion**

In this section, Umurenge SACCOs leader’s views and conceptions about financial literacy were elaborated based on the information provided in the field.

**Level of knowledge of the Umurenge SACCO’s members on financial inclusion.**

Umurenge SACCOs Clients knowledge about financial services

According to Tamimi (2009), the level of knowledge about financial service affects the banking behavior of the people. The respondents were asked to answers on the level of financial services of clients offered by Umurenge SACCOs.
According to figure above it was clearly shown that Umurenge SACCO’s members have very low knowledge only 30% respondents admitted that Umurenge SACCOs Members were fully knowledgeable about the services offered to them. This is in agreement with Tamini (2009), who found out that the categories of people with lower level of financial services include women, young people, and investors with low income or with low education.

**Effect of financial knowledge on choosing financial institutions**

The knowledge of financial services plays a significant role in choosing financial institutions. One of the questions was to know how financial services affect people in choosing financial institutions to work with.

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
<td>56</td>
<td>64.0</td>
</tr>
<tr>
<td>NO</td>
<td>32</td>
<td>36.0</td>
</tr>
<tr>
<td>Total</td>
<td>88</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Primary Data, 2014

The table demonstrates that financial knowledge plays a significant role in helping people to choose the financial institutions to work with, for 64% of the respondents agree that the level of the clients affect the way an individual chooses the financial institution to operate with. The study conducted by Tamimi in 2009 demonstrated that the level of financial literacy varied with people’s education, experience, age, income, and gender. Particularly, women had much lower financial literacy than men and older participants performed better than younger participants.

**Contribution of disposal income on joining Umurenge SACCO**

In response to whether having an extra income affect joining financial institutions, the respondents agreed that there is a relationship between financial literacy and holding extra money in the pocket.

Source: Compiled from the field, 2014

There were 63% SACCOs leaders who agreed that, having extra money affect people to choose financial institutions to operate with. People seek to know financial services offered by financial institutions because they have extra money in their pocket to bank. Ghost (2012)’s statement is supported by the finding which has identified holding extra money as one factor that lead to financial literacy.

**Effect of knowledge of financial services on planning for a budget or saving plan**

Knowledge of financial services affects budget planning or saving plan.
Ghosh (2012) stated that knowing what is being offered by a financial institution helps clients to create a household budget, to make plans for future investment and manage funds. More than half of the respondents (58%) shared the view that when a person is knowledgeable about financial services being offered by financial institutions lead to planning for a budget or initiating a saving plan as depicted in figure 4.5. This implies that the knowledge of products/services of financial institutions help access financial services. This supports Ghosh (2012) statement about the financial literacy helps individual to create household budget, initiate a saving plan, manage debts and make strategic investment decision for their retirement or for their children education.

Demographic factors affecting financial inclusion

The respondent views and concepts how demographic factors affect financial access were collected. The Table 4.4 provides an insight of the responses.

<table>
<thead>
<tr>
<th>Demographic Factors</th>
<th>STRONGLY AGREE</th>
<th>AGREE</th>
<th>STRONGLY DISAGREE</th>
<th>DISAGREE</th>
<th>I DON'T KNOW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marital status</td>
<td>15</td>
<td>70</td>
<td>15</td>
<td>100</td>
<td>40</td>
</tr>
<tr>
<td>Skill</td>
<td>20</td>
<td>60</td>
<td>36</td>
<td>80</td>
<td>30</td>
</tr>
<tr>
<td>Age</td>
<td>22</td>
<td>56</td>
<td>45</td>
<td>45</td>
<td>25</td>
</tr>
<tr>
<td>Employment</td>
<td>10</td>
<td>80</td>
<td>21</td>
<td>88</td>
<td>45</td>
</tr>
<tr>
<td>Nationality</td>
<td>17</td>
<td>66</td>
<td>39</td>
<td>64</td>
<td>45</td>
</tr>
<tr>
<td>Income</td>
<td>20</td>
<td>68</td>
<td>33</td>
<td>52</td>
<td>50</td>
</tr>
<tr>
<td>Gender</td>
<td>23</td>
<td>62</td>
<td>30</td>
<td>72</td>
<td>30</td>
</tr>
</tbody>
</table>

Given Table 4.4, some demographic factors are ranked much higher than others. The average view was that all the respondents agreed (2.55) that demographic factors affected financial inclusion. Age, gender, skills, and income being predominant. The findings support Tamimi (2009) that demographic factors such as gender, age, nationality, income, work experience, academic discipline are conducive to financial access.

Government policies on financial inclusion
Government policies role is very crucial in promoting financial inclusion in any country. The issue is for the government to take a leadership role and focus on the attention of the financial sector according to Bruggers (2005). The SACCO leaders were requested to analyze the role played by government policies in achieving financial access.

**Figure 4.6 : The government policies promote a competition and give confidence**

As depicted by Figure 4.6, additionally to 32.5% of respondents who agree that the government policies promote a competition and give confidence to banked and encourage competitions among the financial institutions. With a high score (+ 45.3%), the respondents strongly share the same point of view. This respondent's view confirm what the World Bank (2008) suggested that the government policies should encourage competition among financial institutions. However, more than 4% of respondents don’t know if the government support to financial institutions promote competition.

**Effect of customer's perception on financial inclusion**

The role played by man and women in matters relating to financial decision making in the households is very critical. However this role is described under traditional orientations or modern orientations. It is in this regards that sector council were requested to answers on how men and women share responsibility among couple in financial decision making in Rwanda setup and how clients evaluate Umurenge SACCOs services.

**Table 4.5 : Responsibility of financial decision making in the couple**

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men take all decision</td>
<td>28</td>
<td>32.1</td>
</tr>
<tr>
<td>women take all decision</td>
<td>12</td>
<td>14.0</td>
</tr>
<tr>
<td>Both take decision</td>
<td>47</td>
<td>53.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>87</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Table 4.5 shows that more than half of the respondents state that men and women take both financial decisions. This means that in Rwanda, society use modern orientation where both men and women share responsibilities of works and financial decisions (Frimpong, 2008).

The respondents were as well requested to specify how Members evaluate the SACCOs services.

**Figure 4.7 : Evaluation of Umurenge SACCOs services**

Figure 4.7 shows that U-SACCO's members evaluate before and after consumption of the services. This means that the pre services such as how customers are received and directed matter and after services is also vital to the customers.
Impact of proximity of financial institutions on financial inclusion

The results in these paragraphs are based on analysis of data regarding the second research questions: Does proximity of financial institution affect accessing financial access in rural areas? The findings are drawn from the questions elaborated in the questionnaires under the following subtitle: Proximity of financial institution on financial accessibility, people’s perception on the proximity of financial institution, preference of Umurenge SACCOs over others financial institutions, walking distance to financial institution and transport cost to financial institution.

Proximity of financial institution in improving financial inclusion

The views of respondents were collected on how having financial institutions near the customers affect the way people access to financial services. Kumar (2005) suggested that proximity of financial services does not guarantee financial inclusion while Solo and Monroth (2006) says that physical accessibility of financial institution prevent low income people to access financial services. Table 4.6 show the views of the respondents on proximity of financial institutions.

Table 4.6: Proximity of financial institution improve financial inclusion

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>52</td>
<td>59%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>17</td>
<td>19%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>10</td>
<td>11%</td>
</tr>
<tr>
<td>Sometimes</td>
<td>18</td>
<td>21%</td>
</tr>
<tr>
<td>Total</td>
<td>88</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Findings compiled on the field, 2014

It was found that 59% of respondents strongly agree that having a SACCO nearby affect the way people enroll to financial institutions, compared to 19% who strongly disagree there is no relationship between the two variables. It implies that the Umurenge SACCOs have facilitate the inclusion through its proximity (location at each administrative sector). The respondents’ views were in support of solo and Monroth (2006) concept that assumes that financial institution increases the financial access of the population.

People’s perception on the proximity of financial institution

Even if there is a financial institution present in a given location, clients may have a biased towards the organization (Kumar, 2005). Therefore, respondents’ answers reflect that people’s perceptions are varied.

Figure 4.8: People’s perception of the proximity of financial institution

Source: Findings compiled on the field, 2014

Figure 4.8 shows that 37% of respondents affirm that Umurenge SACCO’s member were reluctant of joining the financial institutions, therefore, may not access financial services. While 28% of the responses stated that people accepted the programme with opened handed. These categories of people are likely join financial institutions. However, 24% of responses say that people accepted the programme
with mixed feeling. This kind of people may or may not access financial services. The remaining 11% of responses state that people were biased about the programme. Such people can never access Umurengé SACCOs services/products. The respondents show that the proximity of financial services in increasing financial accessibility is differently viewed, therefore, if Umurengé SACCOs need to increase financial inclusion, there is need to improve its services for better or enhance its marketing strategy.

Walking distance to financial institution

As earlier mentioned, Umurengé SACCOs were placed at each administrative sector to reduce the financial exclusion. Respondents gave an insight of the kilometer that a client has to walk to reach the U-SACCOs. The World Bank (2008) suggested that ideal measure to access financial access would be the average kilometer from household to bank branch.

Table 4.7: Walking distance to U-SACCOs

<table>
<thead>
<tr>
<th>Distance</th>
<th>Frequency</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3 km</td>
<td>17</td>
<td>19%</td>
</tr>
<tr>
<td>4-6 km</td>
<td>38</td>
<td>43%</td>
</tr>
<tr>
<td>7-10 km</td>
<td>20</td>
<td>23%</td>
</tr>
<tr>
<td>More than 10 km</td>
<td>13</td>
<td>15%</td>
</tr>
<tr>
<td>Total</td>
<td>88</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Primary data, 2014

The table 4.7 shows that 47% of the respondents walked on average a minimum of 7 km to reach Umurengé SACCOs branch.

Transport cost to financial institution

The cost of reaching a financial institution may be very exorbitant for poor people, therefore affecting their financial inclusion. The respondents were asked to estimate how much a client of U-SACCOs pays to reach the institution. Table 13 depicts the views of the respondents.

Figure 4.10: Transport cost to U-SACCOs

As reflected in Figure 4.10, the respondents could not make up at least half to estimate the cost of transport to reach U-SACCOs branch. It gives a clear picture that the cost deeply diverges in the ten sampled sector. The cost of reach the bank branch determines the financial inclusion of the population, because such cost as well include the loss of daily wages of a person (Ghosh, 2012). Therefore, a SACCO should be at reasonable distance to allow the Members to reach the branch without wasting much money.
The second specific objective was “to determine if the proximity of financial institutions increases financial accessibility”. There is diverse understanding of the importance of physical location of the financial institution at the each administrative area. The World Bank report prepared by Kumar (2005) recommended that proximity of financial services is not a determinant of financial inclusion while Solo (2006) emphasis that physical accessibility of financial institution prevents low income people to access financial services. The findings have shown that respondents support Solo (2006) that proximity play an important role in the financial inclusion, while they could hardly determine the people’s perception about proximity of financial institutions. The respondents also agree that the Umurenge SACCOs are preferred over other financial institutions.

In addition, the World Bank (2008) reports that the best way to measure financial inclusion would be to indicate the average distance to walk and the cost of transport from household to branches. Due to diverse geographical spread of Umurenge SACCO, the respondent were neither able to determine with certainty the number of kilometer that a client has to walk to reach the SACCOs nor the amount paid by the clients as a mean as transport.

Effect of financial product development on financial inclusion

The findings in this section are based on respondents’ views and concept about the effect of financial product development on financial inclusion. The respondents were asked questions that related to comparative advantage of Umurenge SACCOS product, technical and functional quality of Umurenge SACCOs product, role played by members in development of financial products, conduct of market research before design of financial products and its responses, description of launch of the programme, description of the pricing strategies and financial product response to the need of the clients.

Comparative advantage of Umurenge Sacco’s product

For any financial institution to be competitive in the market, it has to have a comparative advantage over others (Storey,1996). The respondents gave their views on the comparative advantage of Umurenge SACCOs as reflected in figure 12.

Figure 4.11: Comparative advantage of U-SACCOs

![Comparative advantage of U-SACCOs](image)

Source: Primary Data 2014

The figure 4.11 shows that the highest percentage (35%) of the respondents confirmed that Umurenge SACCOs product solve their problems, while 32% emphasized that U-SACCOs product are designed to SACCO’s members. The quality of product is also determined as a comparative advantage of the Umurenge SACCOs product and 22% of the respondents would not determine any comparative advantage. However, looking at the percentage of the respondents, no option has scored at least a half of the responses, this indicated that the views of respondents are very diverse on the subject.

Technical and functional quality of Umurenge SACCOs product

Storey (1996) suggested that technical and functional quality of financial institutions product must be recognized in financial services industry. The respondents evaluated the technical and functional aspect of U-SACCOs as seen in figure 4.12.
Figure 4.12: Technical and functional quality of U-SACCOs

Source: primary data, 2014
More than 50% of the respondents agree that technical and functional quality is perceived in U-SACCOs product. They perceive that the product and services offered by that particular financial institution is very good. The respondents support the views of Storey (1996) that technical and functional quality should be perceived in what the people receive and how people perceive the product being offered respectively.

Role played by members in development of financial products

One of the cooperative principle stated that members contribute equally to, and democratically control, the capital of the cooperative. This benefits members in proportion to the business they conduct with the cooperative rather than on the capital invested. Therefore, members have roles to play in the development of the services and/or products. The Figure 4.13 shows the participation of the members in development of financial products of Umurenge SACCOs.

Figure 4.13 : Role played by members in development of financial products

Source: Compiled from the field, 2014
The respondent equally agree that the members of U-SACCOs play both the role of recommending a product that is suitable to them (52%) as well as providing information needed to develop the new product (26%). This indicated that the members of Umurenge SACCOs play a significant role in the management of their cooperative.

Response of market research to fast track the market opportunity

Conducting a market research provide ground for responding to the opportunity available in the market. The respondent views were collected to evaluate how if the market research has been conducted and how it has answered to the market opportunity. Table 4.8 (1) shows that more than half of the respondents agree that a market research has been conducted before implementation of the Umurenge SACCOs and but
with varying response on how it has responded to market opportunities.

**Table 4.8 (1): Market research response to market opportunity**

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product designed to the need</td>
<td>25</td>
<td>28%</td>
</tr>
<tr>
<td>Product satisfied the need</td>
<td>20</td>
<td>23%</td>
</tr>
<tr>
<td>Customer offered products</td>
<td>43</td>
<td>47%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>88</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: primary data 2014

**Table 4.8 (2): Market research response to market opportunity**

"Before design the products, is there any market research which has been conducted?"

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Valid percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>56</td>
<td>64%</td>
</tr>
<tr>
<td>No</td>
<td>33</td>
<td>36%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>89</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: findings compiled on the field, 2014

According to the Umurenge SACCOs strategy adopted by the cabinet in 2009, the creation of SACCOs was based on the survey conducted by Finscope 2008 (FinMark Trust, 2012) showing the financial exclusion status. The respondents, however, could not clearly stated how the market research has contributed to market opportunity because on the Table 4.8 (2), it is seen that less than half of the respondents (biggest percentage) stated that the customers takes what is offered by financial institutions, while only 23% and 28% agree that the product satisfy the need of the customers and product is designed to need respectively. The response could not support Storey (1995)'s statement which states that the market research helps to fast track to market opportunity.

**Description of launch of the programme**

The launch strategy plays a connection role between the development process and market and lead to success when it is coupled with the appropriate targeting and pricing strategies according to Storey (1996). The figure 4.14 shows the respondents’ answers from the field related the launch strategy of Umurenge SACCOs.

**Figure 4.14: Launch strategy of Umurenge SACCOs**

Source: Primary Data, 2014

Almost half of the respondents stated that the launch of Umurenge SACCO was merely by opening the branch doors. This implies that no market has been done to attract more members, while others (31%) reply that a ceremony was organized. The official national launch of Umurenge SACCOs was organized in 2011 after two years of operations. Here, the strategy of the launch was firstly let the U-SACCOs operate and launch the programme when has taken roots.

**Description of the pricing strategies**

The pricing strategies of financial institution contribute to the success of the institution if it is married with a good launch strategy as stated by Storey (1996). The pricing strategy of Umurenge SACCOs was investigated upon so as to evaluate how it contributes to its success.

**Figure 4.15: Umurenge SACCOs’ pricing strategies**

Source: Primary Data 2014
Less than half of the respondents (44%) stated the pricing of Umurenge SACCOs is very high compared to others financial institutions. The pricing of a financial institution related to the interest rate, to commission of the loan, to the account maintenance, etc.

The third specific objective of this research is to assess the effect of financial product development on the financial inclusion. The literature reviews has demonstrated that the financial institutions are moving from supply driven approach to market and client driven approach because of intense competition in the financial sector. The success of a product in the market required the combination of some factors. One of the key factors is for a financial institution to offer comparative advantage product. The findings on the field shown that the respondents could not determine the comparative advantage offered by Umurenge SACCOs product. The other factor is technical and functional quality of the product, which respondents perceived to be very good.

The finding also demonstrates that the market research has been conducted but they could not perceive that it has responded to the market opportunity. The market research has been conducted by the external consultancy which has led to the creation of the Umurenge SACCOs programme. The literature reviews also show that the launch strategy of a programme when married with the pricing strategy lead to success of the programme. The respondents’ views show that they could exactly agree neither on the launching strategy nor on the pricing strategy of Umurenge SACCOs.

Recommendations

1. Poor households need access to broad range of financial services
2. Bank accounts, targeted savings, financial literacy, microcredit

Policy and Regulation

The main Rwandan legal instruments need to be analyzed in deep and revised in order to facilitate the financial inclusion for all especially for the poorest of the poor through the Umurenge SACCO programme. The most important legal instruments which should be revised are: The law on microfinance institutions in Rwanda of 26th August 2008; The law on cooperatives; Little policy attention to Roma

financial inclusion broadly viz, Access to bank accounts, promoting savings, financial literacy

It is important to put in place a National Financial Education Strategy in Rwanda. The primary objective of this Strategy should be to empower Rwandan with knowledge, understanding, skills, motivation and confidence to help them to secure positive financial outcomes for themselves and their families.

The role of the Government should endeavor to create a favorable environment for microfinance, without being a provider.

Capacity Building of Staff- There should be immediate and close collaboration with Microfinance Association to formulate a strategy for: Promoting financial literacy

i. establishing a Rwanda Microfinance’ Institute which would be responsible for setting standards for the accreditation of financial sector staff ensuring the supply within Rwanda of training services of an appropriate quality and standard, having regard to existing facilities such as the School of Finance and Banking. Special attention is required to facilitate the Umurenge SACCO staff regarding, the role played by their SACCOs in term of financial inclusion in the area unattractive for classics banks.

ii. partnering in the interim with regional or international training organizations until such time as adequate capacity within Rwanda is built

Umurenge SACCO Programme

i. GoR significantly should strengthen its communication around the Umurenge SACCO programme to two audiences for this—local government officials and the general public.

ii. GoR should forge strategic partnerships around capacity building with experts in the field (e.g. CARE international, NGO AQUADEV etc) and sub-contract the management of capacity building efforts to these organizations on a geographic basis. This would also rich control data on how best capacity building in U. SACCOs should be
done.

CONSUMER PROTECTION AND FINANCIAL CAPABILITY

Researcher recommends GoR increases its particular focus on consumer protection surrounding the Umurenge SACCO programme. This requires there to be not just a functional complaints procedure for Umurenge SACCO members but also appropriate messaging from MINECOFIN to SACCO managers about the consequences of fraud or negligence occurring under their watch. Learning from global experiences: innovative institutional approaches to reaching poor with basic financial services. Correspondent banking in Brazil-PESA, Kenya, mobile phone money account for easy transfer of funds using SMS, Channel government social safety net transfers through bank accounts instead of cash

There is need for promoting targeted savings Global “Graduation” pilot program -Several poor and middle income countries, from addressing basic needs, to savings, to skills transfer, to asset transfer.

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