

### Extending Rural Finance in Post-conflict Economies



World  
Council  
of Credit  
Unions, Inc.

# COUNTRY CONTEXT

During the eight years since the end of the civil war and genocide that ravaged Rwanda's society and economy in 1994, Rwandans and international partners have worked diligently to rebuild the country. The genocide not only led to more than 800,000 deaths and many more refugees and internally displaced people, but also, in 1994, the GDP fell by 50%. Still today, at least 60% of Rwandans live beneath the national poverty line according to the U.S. Agency for International Development (USAID) and the International Monetary Fund (IMF). Approximately 80% of the population lives in rural areas.

Immediately, before the war, the *Union des Banques Populaires du Rwanda* (UBPR - the national federation of Rwandan credit unions) and over 130 affiliated *banques populaires* (individual credit unions) located throughout the country, served 366,799 members. During the war, roughly \$7 million was stolen from the credit union system and transferred to what is today the Democratic Republic of the Congo for use by perpetrators of the genocide.



The UBPR closed its doors, as did all financial institutions including the Central Bank of Rwanda, during the war in 1994. The UBPR system reopened gradually with most *banques populaires* resuming operations in 1996. At year-end 1996, there remained 42,000 members and only 20% of the pre-war staff.<sup>1</sup> Between 1996 and 1998, credit operations were halted since virtually all loans that had been granted before the war were non-performing. Most pre-war borrowers were deceased or displaced and most collateral, as well as *banque populaire* records, had been destroyed. *Banques populaires* resumed lending in 1998.



Manager and loan officer at Banque Populaire de Remera

*“Rwanda has made significant progress in rebuilding its economic and financial institutions and in reestablishing economic growth since the genocide. However, about 60 percent of the population lives below the poverty line, HIV/AIDS is endemic, private sector investment is extremely limited, and the long-run macroeconomic stability remains to be achieved.”*

IMF Country Report No. 02/204, October 2002, p. 11<sup>2</sup>

## WOCCU RWANDA PROGRAM OBJECTIVES

The World Council of Credit Unions, Inc. (WOCCU) received funding in the amount of \$3 million from USAID/Rwanda to carry out a four-year program of rehabilitation and institutional strengthening of both UBPR (the federation) and a limited number of pilot *banques populaires*. The WOCCU Rwanda program fits within USAID/Rwanda's current and future strategic objective of expanding economic opportunities in rural areas, particularly under the rubric of improving access to financial services. The program also responds to the desire of the Central Bank of Rwanda for the *banques populaires* to provide credit for rural development. The UBPR system, 148 *banques populaires* at year-end 2002, has the widest geographical coverage of any financial institution in the country.

The WOCCU Rwanda program (8/00-8/04), working in close collaboration with the UBPR, set out in late 2000 to restructure

the UBPR and guide it from a loss-making position to a solvent position. In parallel, in 2001, WOCCU Rwanda began with 10 and later added another seven pilot *banques populaires* with which it works intensively to improve financial performance, increase outreach and strengthen staff capacity. Of the total 17 pilots, 10 are located in rural areas.



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Front cover photo: Member of Banque Populaire de Gakenke

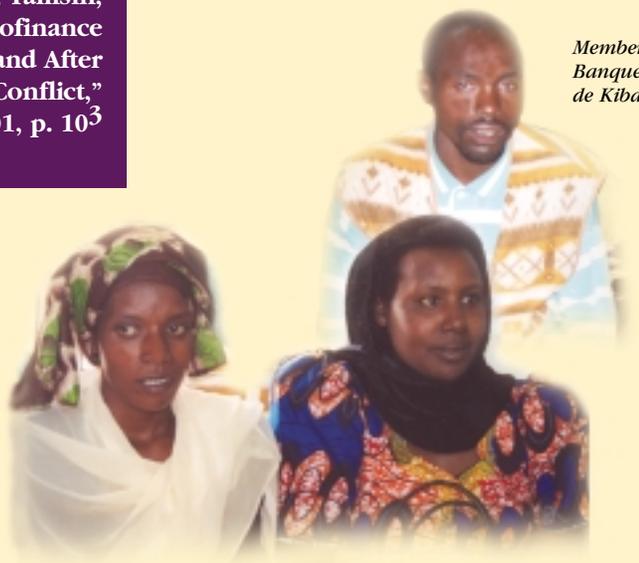
*“For microfinance to have a significant impact upon poverty levels post conflict, and to cater for wide-spread demand which grows exponentially after conflict, microfinance interventions must be on a large scale.”*

Wilson, Tamsin,  
“Microfinance  
During and After  
Armed Conflict,”  
2001, p. 10<sup>3</sup>

## Breadth and Depth of Outreach

### Membership Growth

In December 1999, prior to the WOCCU Rwanda program start, the UBPR and its member *banques populaires* served 193,776 member-clients. As of November 2002, the network offered financial services to 315,356 member-clients. The membership of the 17 pilots, 99,815 at year-end 2002, makes up approximately one-third of the total outreach of the 148 *banques populaires* in the system.



Members of  
Banque Populaire  
de Kibali

## What is the Profile of Rwandan Banque Populaire Member-clients?

According to UBPR's 2001 Annual Report (final 2002 figures were not yet available when this publication went to press in February 2003), agriculture and livestock members held the greatest number of active savings deposit accounts (39%) among the self-reported occupational categories of members. These agriculture and livestock member deposits made up 23% of total active savings volume of \$27.9 million. The average deposit size of an agriculture or livestock member was \$59 (the smallest average deposit size among the diverse occupational groups, which also included microentrepreneurs, teachers, salaried workers and artisans).

A 2002 survey conducted by WOCCU found that:

- 43% of members own livestock
- 31% of members surveyed do not have electricity (even among members surveyed in urban areas)
- 62% of members access their credit union by foot
- 100% of members have active savings accounts, 31% have used loan services

The survey revealed a distinction between cash and subsistence farming. Of the 350 members surveyed, 33% have vegetable gardens. These members report that their gardens provide 49% of the food rations for their households.

*Source: Petrie, Ragan, "Rwanda Credit Unions Member and Non-Member Survey 2002," World Council of Credit Unions Research Monograph No. 20, June 2002. The complete survey is available for downloading at <http://www.woccu.org/pubs/monograp.htm>. Member and non-member respondents were from urban areas (57%) and rural areas (43%).*

## Depth of Outreach

The consolidated active savings accounts for 17 *banques populaires* reveals that 62% of active savings deposits are for amounts less than \$10 at year-end 2002. There are 16 active savings accounts for every one loan outstanding. The consolidated outstanding loan portfolio indicates that 50% of loans are for amounts \$300 or less.

Stimulating rural development, loans outstanding at the 10 rural pilot *banque populaires* for the declared purposes of agriculture, construction, microenterprise and personal make up 50% of the total number of loans outstanding.

### Outstanding Loans - 17 pilot *banques populaires* consolidated

12/02	Number of Loans	% of Number	Volume in US\$	% of Volume
<\$100	1,233	18.1	\$74,018	1.3
\$100-\$300	2,147	31.8	\$393,770	6.8
\$301-\$500	943	14.0	\$374,152	6.5
\$501-\$1000	1,144	16.9	\$822,565	14.3
\$1001-\$2000	531	7.9	\$798,617	13.9
>\$2000	761	11.3	\$3,291,014	57.2
Total	6,759	100.0	\$5,754,136	100.0

### Savings Deposits - 17 pilot *banques populaires* consolidated

12/02	Number of Accounts	% of Number	Volume in US\$	% of Volume
<\$10	64,810	61.6	\$179,657	1.5
\$10-\$50	13,919	13.2	\$337,590	2.8
\$51-\$100	10,241	9.7	\$396,378	3.3
\$101-\$300	8,177	7.8	\$1,445,190	12.0
\$301-\$500	2,852	2.7	\$1,105,726	9.2
>\$500	5,273	5.0	\$8,545,664	71.2
Total	105,272	100.0	\$12,010,205	100.0

## Introducing New Products & Methodologies

One of the objectives of the WOCCU Rwanda program is to expand the savings and credit products available to members. Since the program began, several new savings products have been rolled out by WOCCU Rwanda in the pilots and by UBPR field staff in many of the other 131 *banques populaires*. The new products include: term deposits and programmed savings for housing, retirement and solar energy. Prior to the start of the WOCCU Rwanda program, the *banques populaires* had offered one savings product: passbook savings. These voluntary and fully withdrawable savings remain the most popular savings product in Rwandan *banques populaires*.

The UBPR system of 148 *banques populaires* is completely self-funded by member-client savings. Unlike credit union systems elsewhere in Africa, the Rwandan *banques populaires* have excess liquidity from savings deposits.

### Building Trust in the *Banques Populaires*

Members and savings deposits continue to grow within the Rwandan credit union system because Rwandans trust the *banques populaires*. The afore-mentioned 2002 survey of 350 members and 350 non-members found that trust has increased in all types of financial institutions from 1997 to 2002. The survey also found that Rwandans' trust *banques populaires* more than commercial banks.

Scale of Trust from 1 to 5 (1=no trust; 5=complete trust):

Level of Trust in Financial Institutions	1997	2002
<i>Banques Populaires</i> (Credit Unions)	3.1	3.5
Commercial Banks	2.3	2.8



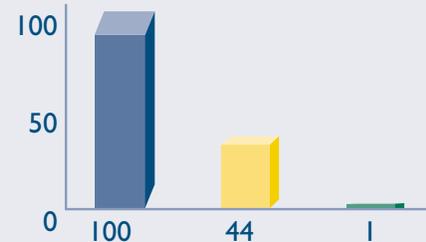
Board of directors and staff at Banque Populaire de Nyamirambo

Given the havoc wreaked by civil war and genocide, the loan portfolios of the UBPR itself and of its member *banques populaires* were characterized by massively high delinquency and by loans delinquent greater than 12 months remaining on the balance sheet, inflating assets. The WOCCU Rwanda program has worked extensively training trainers within the UBPR technical assistance department and *banque populaire* managers, staff and board members on proper credit administration.

By April 2002, all 148 *banques populaires* were employing the “new credit methodology,” using technically-competent staff to 1) analyze loan applications by considering capacity to repay, character and collateral or co-signer guarantees; and 2) employ aggressive collection techniques. The difference in repayment rates between loans granted before and after the adoption of stricter credit analysis based on repayment capacity is dramatic. While 100% of all loans made before the war were delinquent (most of these have now been written-off as part of the technical assistance program) and 44% of the loans made after the war until early 2002 were delinquent, **only 1% of the loans made using the “new credit methodology” are delinquent.**

### 148 *Banques Populaires* 11/02

% Delinquent of Loans Outstanding



■ Loans Before the War

■ Loans After the War

■ New Credit Methodology

# ACCOMPLISHMENTS TO DATE

## Improving Financial Performance

In late 2000, the UBPR was insolvent, had extremely high levels of delinquency (measured as total outstanding balance of portfolio-at-risk at 30 days), had a negative capital position and a substantial net loss. Two years later, the UBPR has achieved solvency, has lowered delinquency and continues to carry out aggressive write-offs and loan recovery efforts. The UBPR has positive net income as of year-end 2002. Without any external funds, it has improved its net institutional capital position (retained earnings and reserves net of required provisions for potential loan losses) from -16% to -1%. The UBPR has yet to meet the WOCCU *standards of excellence* in its key PEARLS financial performance indicators, but it has made significant progress toward reaching those goals.

	Standards of Excellence	UBPR		17 Pilot Banques Populaires Consolidated	
		12/02	12/02	12/02	12/02
P1. Allowance for Loan Losses/Delinquency > 12 months	100%	100%	100%	100%	100%
P6. Solvency (Net Value of Assets/Total Shares and Deposits)	>= 110%	88%	103%	95%	102%
E9. Net Institutional Capital/Total Assets	Minimum 10%	-16%	-1%	-5%	2%
A1. Total Loan Delinquency/Gross Loan Portfolio	<= 5%	71%	25%	40%	16%
R12. Net Income/Average Total Assets	Linked to E9	-8%	5%	-5%	0%



WOCCU Rwanda technician and manager of Banque Populaire de Kibali



Teller at Banque Populaire de Gakenke

## Building Social Capital

WOCCU Rwanda has focused much of its efforts on building social capital, training staff and boards of directors to serve effectively so that the UBPR and its member *banques populaires* can continue to improve their financial performance and expand their services to greater numbers of Rwandans.

Together, the management of UBPR and WOCCU Rwanda have worked to develop criteria and prerequisites for staff positions; for example, all potential *banque populaire* managers must have a university diploma in a relevant field such as accounting or finance. Also, volunteer board members have been trained in their roles with an emphasis on supervising staff rather than being involved in operations.

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## Creating Partnerships Training Across Borders

WOCCU Rwanda and the UBPR have fostered several partnerships. A relationship of knowledge exchange was created between the UBPR and the Maine Credit Union League. One outcome of this partnership was the introduction of the savings products mentioned above, which UBPR staff learned about during an internship in Maine.

## Supporting Agricultural Producers

In 2002, the UBPR cooperated with *Ababuzamugambi de Maraba*, a coffee cooperative supported by USAID. The UBPR provided the cooperative with a loan of \$81,700 for a six-month term to enable the 400 members to harvest specialty coffee. In 2003, several *banques populaires* are expected to partner with coffee cooperatives for similar financing.

## Financing for HIV+ Genocide Widows

The UBPR entered into an agreement with the Association of Genocide Widows *Agabozo* (AVEGA) in 2002. The UBPR finances agriculture, livestock and microenterprise loans for economically active HIV+ genocide widows and AVEGA provides a guarantee fund of \$10,600.





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<sup>1</sup> Sources: Addison, Tony et al., "Financial Reconstruction in Conflict and Post-conflict Economies," Paper No. 40, Institute for Development Policy and Management, University of Manchester, UK, April 2002, pp. 4-5. IMF, "Rwanda: Recent Economic Developments," *IMF Staff Country Report 4*, Washington, DC, International Monetary Fund, January 2000, p. 22.

<sup>2</sup> IMF, *IMF Country Report No. 02/204*, Washington, DC, International Monetary Fund, October 2002, p. 11.

<sup>3</sup> Wilson, Tamsin, "Microfinance During and After Armed Conflict: Lessons from Angola, Cambodia, Mozambique and Rwanda," The Springfield Centre for Business in Development, Durham, UK, 2001, pp. 9-10.