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Programme (VUP)

# THE FINANCIAL SERVICES COMPONENT

# AGENDA

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- ✘ Introduction & Administrative Structure in Rwanda
- ✘ Implementation of VUP to date
- ✘ Overview of VUP's community based targeting
- ✘ Design and current status of the Financial Services component
- ✘ Issues for the future

# RWANDA'S ADMINISTRATIVE STRUCTURE

- ✘ Institutional Structure in Rwanda
  - + Central administration
  - + Provinces 4
  - + Districts 30
  - + Imirenge (Sectors) 416
  - + Akagare (Cells) 2,148
  - + Villages 14,837
  
- ✘ VUP is managed from the Ministry of Local Government and the point of service delivery is the **Umurenge (Sector)**
  
- ✘ Communication is through the District administration

# OVERVIEW OF VUP

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- ✘ VUP has three components:
  - + Public Works for those targeted households which can supply labour (currently reaching about 16.4% of households in the active sectors)
  - + Director Support for those targeted households which cannot (currently reaching about 4.1% of the households in the active sectors)
  - + Financial services to enable loan beneficiaries to move out of extreme poverty on a sustainable basis and to prevent people who are slightly above the extreme poverty line from falling into poverty themselves

# ROLL-OUT OF VUP

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- ✘ May 2008 VUP launched in 30 pilot imirenge on a one per district basis
  - + Public Works started in May 2008
  - + Direct Support started in February 2009
- ✘ July 2009 VUP extended to an additional 30 imirenge
  - + Public Works & Direct Support active in all sectors
  - + Financial Services launched in February 2010
- ✘ July 2010 VUP extended to a further 30 imirenge (90 in total, 3 per district)

# TARGETING

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- ✘ VUP targets the landless extremely poor households
  - + “Landless” means owning less than 0.25 hectares
- ✘ Targeting is community based, utilising a
- ✘ the traditional Rwandan **UBUDEHE** approach
- ✘ Under UBUDEHE, households are categorised into one of six classifications

# CHARACTERISTICS OF THE UBUDEHE CLASSIFICATIONS

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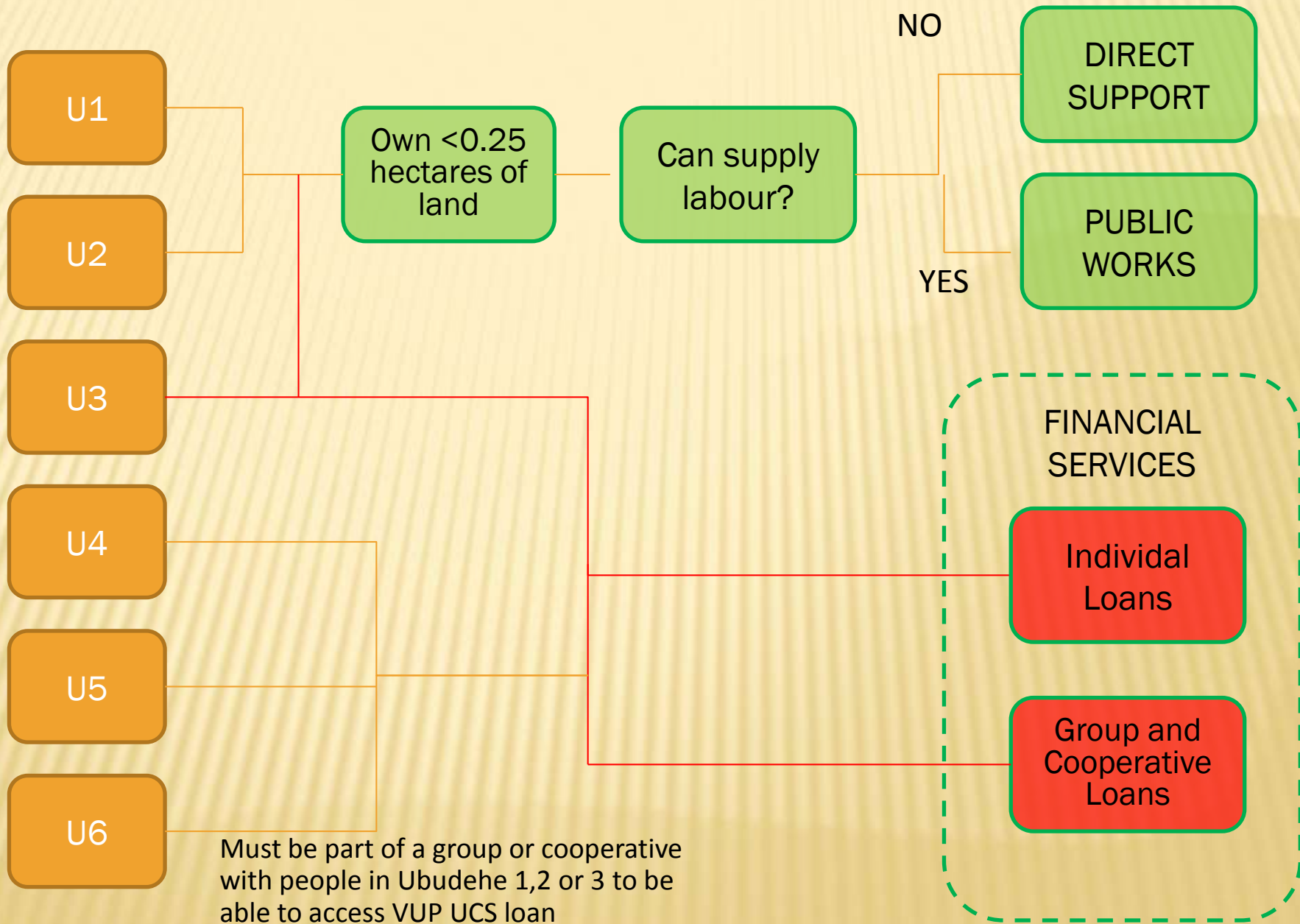
- ✘ **1- Umutindi nyakujiya (those in extreme poverty )**
  - + Need to beg to survive, no land or livestock and lack shelter, adequate clothing and food. No access to medical care. Children malnourished and do not attend school.
- ✘ **2 – Umutindi (the very poor)**
  - + Same as 1 but physically capable of working on land owned by others,. Very small landholdings, no livestock.
- ✘ **3 - Umukene (the poor)**
  - + Have some land and housing. Live on their own labour and produce, and though they have no savings, they can eat, even if the food is not very nutritious.
- ✘ **4 - Umukene wifashije (the resourceful poor )**
  - + Same as 3 but may have small ruminants and their children go to primary school.
- ✘ **5 - Umukungu (the food rich)**
  - + Larger landholdings on fertile soil and enough to eat. Own livestock, often have paid jobs, and can access health care.
- ✘ **6 - Umukire (the money rich )**
  - + Has land and livestock, and often has salaried jobs. Good housing, often own a vehicle, and have enough money to lend and to get credit from the bank.

# WHO QUALIFIES FOR VUP

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- ✘ Public Works and Direct Support
  - + Households in Ubudehe categories 1 and 2 can be selected for PW and DS
- ✘ Financial Services
  - + Households in Ubudehe categories 1, 2 and 3 are eligible for FS loans
  - + However, groups and co-operatives can strengthen their management skills by including people from the other Ubudehe classifications





# FINANCIAL SERVICES DESIGN

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- ✘ The Financial Services component of VUP will have 3 elements:
  - + Loans
  - + Training for beneficiaries
  - + A “Challenge Fund” providing grants
- ✘ In its early stages only the loan component is operational

# FINANCIAL SERVICES DESIGN

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- ✘ Two options for managing the loan component were explored: the microfinance sector and the local Savings and credit co-operatives (SACCOs)
- ✘ The intention is that in due course the loan distribution component will be managed by the microfinance sector but at the moment the loans are being distributed through VUP/government institutions and systems

# FINANCIAL SERVICES DESIGN

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- ✘ The key characteristics of the loan process are:
  - + Loans can be applied for by individuals, by groups or by co-operatives
  - + Potential loan beneficiaries complete project proposals and submit to a Loan Committee which receives and reviews them
  - + Recommended project applications are forwarded to the umurenge and district for ratification
  - + Funding is requested from the VUP Central Management Team for approved projects
  - + Beneficiaries sign a loan agreement and the funds are transferred to their bank account
  - + Loans are repayable over a maximum of 1 year, but repayments don't have to start straight away
  - + Interest is charged at 2%
  - + There are constraints over how much beneficiaries can borrow as individuals or as members of a group or co-operative;

# FINANCIAL SERVICES CURRENT STATUS

- ✘ Funds were disbursed from the central account in March & April
- ✘ Loan beneficiaries received funds in May & June
- ✘ Most loans are not scheduled for repayment until September

# FINANCIAL SERVICES KEY STATISTICS

	Overall	Individuals	Groups	Co-ops
Number of loans	14,536	10,048	4,332	156
Number of beneficiaries	55,675	10,048	41,604	4,023
Average loans per sector	242			
Average beneficiaries per sector	928			
Average group/cooperative size			10	26
Amount distributed (US\$)	US\$ 7.6m			
Average loan size (US\$)	US\$ 521			
Average amount per beneficiary (US\$)	US\$ 136			

# FINANCIAL SERVICES - ISSUES

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- ✘ VUP has an microfinance expert evaluating the current status to identify the lessons learned so far;
- ✘ There is evidence that some projects are progressing well;
- ✘ There is good co-operation between the umurenge offices and the local SACCOs, most of which have provisional licences to operate;
- ✘ Four critical areas have been identified to strengthen the FS component in the future

# FINANCIAL SERVICES ISSUED

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- ✘ Whilst guidelines have been provided and training given in the administration of the scheme there are inconsistencies in the way the scheme is being implemented
- ✘ Capacity at the umudugudu and imirenge level for the effective appraisal and selection of projects needs to be strengthened
- ✘ Basic level of capacity for accounting at the sector level is needs to be strengthened
- ✘ Procedures and capacity for monitoring and follow up on the projects being implemented needs to be strengthened



# CONCLUSIONS

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- ✘ It is still early to draw conclusions about the impact of the FS component, nevertheless in the 6 months since the component was launched around 55,000 people have received loan funding
- ✘ Ongoing capacity building is required to assess project applications, monitor implementation and manage the loan portfolio
- ✘ A transition plan to migrate the loan portfolio across to the microfinance sector is needed. This will need to address the capacity needs of the sector
- ✘ Training programmes in project management and financial management for loan applicants needs to be implemented – however the numbers of people involved are large
- ✘ The Challenge Fund is still be mobilised

**THANK YOU**

**ANY QUESTIONS?**