

**MICROFINANCE INSTITUTIONS AND RURAL SOCIAL ECONOMIC  
DEVELOPMENT IN RUSIZI DISTRICT, RWANDA**

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A Thesis

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In Partial Fulfillment of the Requirements For the Degree  
Master of Business Administration

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By

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REG. N°: MBA/43737/92/DF

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## DECLARATION A

I declare that this thesis is my original work and best of my knowledge. It has never been submitted before, for any academic work or published at any university or any institution of higher learning.



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**UWITONZE Alfred SAFI**

Researcher

Date: 13 / 09 / 2012

## DECLARATION B

"I confirm that the work reported in the thesis is carried out by the candidate under my supervision."

A handwritten signature in black ink, consisting of a large loop followed by several horizontal strokes, positioned above a horizontal line.

Mr. Kasozi Geoffrey

13<sup>th</sup> Sept, 2012

Date

## **DEDICATION**

To my beloved Wife Mrs. Phoebe KAMUZIMA and my son Boston SHEMA IRAKIZA for their love and patience during my course of studies.



## ABSTRACT

The major objective of study was to identify and bring awareness on the role of microfinance institutions to the Rural Socio economic development in Rusizi District-Rwanda. By conducting an assessment one can determine the social economic impacts of MFI's interventions in the area then propose solutions to increasing economic growth, promotion of self dependency, helping the unemployed to generate additional jobs for themselves.

This study used correlation analysis. The target population involved a total number of 6873 where the researcher has selected 378 respondents from Community members (clients), Local leaders and MFI,s Workers. The minimum sample size was computed using the Sloven's formula.

The researcher adopted purposive sampling to select the sample size. This is where one selects participants who have the required information according to the objectives of his/her stud. To meet our objectives, we have collected data using questionnaires. The data were presented, analysed, and interpreted using Statistical Package for Social Science (SPSS).

The results indicated that the respondents who earned more annual amount of income were responsible to save their money in MFI's, these amount of income has the source in different respondent's occupations (farms, business, etc. ref. table of the profile of the respondent and cross-tab tables). Findings indicated that due to the capacity and services delivery by MFI's to their clients, table of capacity sub-variable shown that the level of MFI'S capacity is at high level of **(mean=2.8271)**. These results indicated also that Microfinance institutions have a high capacity to implement their activities through their sufficient funds, equipments and their professional commitment of the staff and customer business satisfaction.

By identifying the role of MFI's on socioeconomic development in the population under study, the results of table concerned to sub-variable of socio-economic development, researcher known that Due to MFIs services, the number of children dropping out school is reducing in the community to be very highly on the level of (mean=3.1217). Then, researcher tested Hypothesis in order to take the conclusion of rejection of null hypothesis or to agree it. The hypothesis of this research was: "There is a significance relationship between microfinance Institutions and socioeconomic Development, and there is a significance effect of Microfinance institutions to the socioeconomic development in Rusizi District". This hypothesis was tested.

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## LIST OF ACRONYMS AND ABBREVIATIONS

<b>BNR</b>	Banque National du Rwanda
<b>DDP</b>	District Development Plan
<b>EDPRS</b>	Economic Development and Poverty Reduction Strategy
<b>GDP</b>	Gross Domestic Products
<b>GNP</b>	Gross National Product
<b>MFIS</b>	Microfinance Institutions
<b>MINICOFIN</b>	Ministry of Finance and Economic
<b>RCA</b>	Rwanda Cooperative Agency
<b>RMF</b>	Rwanda Microfinance Forum
<b>SACCOs</b>	Savings and Credit Cooperatives
<b>SPGSR</b>	School of Postgraduate Studies and Research
<b>SPSS</b>	Statistical Packages for Social Sciences

## CHAPTER ONE

### THE PROBLEM AND ITS SCOPE

#### Background of the Study

Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services.

During the 1980's and 1990's, particularly in Asia, Africa, and Latino America, thousands of microfinance NGOs (Non-Government Organizations) were established to provide micro loans, using individual and group lending methodologies. In the 1990's, while many of the NGOs failed to reach scale or financial sustainability, others led the way in demonstrating that: microfinance lending savings, and other financial services to poor is an effective way to help poor people themselves build income and assets, or manage risk, and work their way out of poverty. In the recent development, over the past decade, microfinance institutions have adopted innovative ways of proving credit and savings services to the entrepreneurial poor. As supporters of the income-generation approach maintain that credit should be provided mainly to the entrepreneurial poor to enable them to finance specific private income generating activities to increase their revenues (Daley-Harris & Sam, 2002:264-265).

In the last 20 years, the microfinance industry has emerged. Microfinance in effective way of creating the conditions for sustainable and long-term human and economic development. It has become a vital tool of national governments and major international development organizations to enhance local economic development and to encourage and support private sector development at the earliest stages (Richard Weingarten, United Nations Capital Development Fund: *Microfinance Matters, Building inclusive financial sectors 2005*).

Rwanda is a small, landlocked country in the Central Africa, one of the poorest countries in the world, a country in the Great Lakes Region of Africa. Its economy is agriculture based; over 90% of the population is dependent on subsistence agriculture. Agriculture contributes only 40% of the GDP but around 90% of export revenues. The Rwandan population is estimated over 9,2 million people in 2008 with one of the highest population growth rate of about 2.9% per year. More than 60% of the population lives below the poverty line and income inequality has worsened. (MINECOFIN Report 2008).

### **Objectives and Benefits of Microfinance services in Rwanda**

The government of Rwanda aims to create an enabling environment for professional and sustainable MFIs, so that they will be capable of fully playing their role as partners in delivering national, regional, and global development objectives. This will be through financial and non financial services extended to rural and urban, economically active, poor and low income people (MINECOFIN; Microfinance policy document, 2007).

#### **Microfinance policy objectives**

To establish a legal, regulatory, institutional and economic environment conducive to the healthy development of the microfinance sector in Rwanda;

To encourage the development of sustainable and professional MFIs which offer an improved quality and range of products and services;

To facilitate increased access to financial services amongst the Rwandan population, especially for those social groups that have previously lacked access to traditional financial services, in particular woman;

To increase the financial and investment capacity of individuals and the empowerment of woman;

To mobilize resources, to build a financial culture within the population and to capitalize or monetize the rural sector ensure equitable distribution of financial institutions and resources;

To facilitate job creation and employment through fostering the microfinance sector;

To promote the emergence of national expertise in field of microfinance that is able to serve as a model in the sub-region.

According to MINECOFIN (2007), in June 2005 had almost 230 institutions involved in the microfinance sector (include 149 people's cooperatives). Geographical coverage of MFIs is unequal with more concentration in urban areas and some trade centers. The process of application for BNR approval started in 2004 and intensified in 2005. It was also accompanied by sensitization campaigns organized by BNR and the ministry of finance and economic planning (MINECOFIN) across the country. The end of 2005 and the beginning of 2006 were characterized by the closure of some MFIs that did not respect norms, and the process of their liquidation has commenced.

It should be noted that certain MFIs are grouped within an association called Rwanda Microfinance Forum (RMF). This forum has attempted to be a platform between the practitioners in microfinance and their partners. However, it has not gained membership of the majority of MFIs and so is not strong entity.

It may also be noted that three legal status are accepted in order to operate as MFIs. These are cooperatives, Sociétés Anonyme (S.A), Sociétés par Action à Responsabilité Limitée (SARL). There are also informal status options of intervention in microfinance, notably, tontines (rotating associations) commonly called IBIMINA.



## **The benefits of microfinance**

According to Vision 2020 of Rwanda's document, the main benefits of microfinance are:

A reduction in vulnerability to adverse circumstances is its ability to reduce vulnerability among the poor. The reduction occurs through a number of different channels. Micro credit programs help borrowers to ensure themselves against crises by building up household assets; such assets can be sold if needed. They can also be used as security or proof of credit worthiness when dealing with businessmen or more traditional lending agencies. The diversification of assets can reduce the risk of catastrophic loss, for example a family which relies on share-cropping could easily be bankrupted by a single crop loss, whereas a family with diverse field base of crops and livestock or hand craft income could survive the next harvest. Other aspects of micro credit program such as skills training and female empowerment also contribute to a family's ability to challenge situations. These reductions in vulnerability are important because they allow the poor to begin to hold their own in society, gains made in prosperous times are partially protected during bad times, and the cycle of poverty is arrested.

Increase consumption: another benefit of micro credit program is increase in household consumption. A case of Bangladesh, for every 100 take (the unit of currency in Bangladesh) lent to a female borrower, household consumption rises by 18 take, income smoothing which is the result of lessened vulnerability, also leads to consumption smoothing. These are both important effects for people who typically live on the edge of disaster. Even small increase in consumption and increase regularity in consumption can lead to better health and nutrition, and enhance the ability to make long range plans for family. Combined with investment possibilities opened up via additional loans from the micro credit programs, such stability can have far reaching positive effects on participating households.

Reduced income poverty: micro credit programs also reduce income poverty that is, borrowers actually tend to make more money over time. Once a cycle of poverty has been arrested and some stability provided. Many borrowers on to make profitability investments and even themselves come out of poverty all together.

Access to financial services: these services enable low-income people to better manage the growth and diversification of their enterprises. An incremental approach to loan size permits borrowers to start with small loans and in increases the size of their loans gradually as they qualify for large loans (Robinson& Marguerite, 2002)

Building self confidence: due to respect to the customer and indicating confidence in their enterprise, microfinance institutions help to set the example that many poor households are well regarded and worthy of trust. This role is especially important in societies where certain segments of the population, whether because of ethnic origin, religion, gender, occupation or other characteristics are systematically subjugated by those who are locally dominant, because financial services help the poor expand their economic activities and increase their income and assets hence their self confidence grows simultaneously. Therefore, microfinance matters because it increases the option and self confidence of the poor households by helping them to expend their enterprises and others, to decrease risk, to smooth consumption, to obtain high returns on investment, to improve management and increase their productivity and income, to store their excess liquidity safely and obtain return on their savings, to escape or decrease exploitation by the locally powerful and to conduct their business with dignity (Robinson & Marguerite, 2002).

### **Statement of the problem**

Before 1994 genocide, in Rwanda, beside the "Banques Populaires" and few NGOs which offered financial services to the population, microfinance activities were not very significant. After 1994, the NGOs and donors intervened during the emergency period to assist the Rwanda population. During the emergency period, loans were not,

in some cases, distinguished from grants or gifts, and create confusion amongst the population.

However, although the activities of microfinance in Rwanda exist since long time, its first now necessary to determine the differences in people lives between those who cooperate with micro finances and others who do not cooperate with them;

Second the socioeconomic development is too slow and insignificant among the population.

The researcher was focusing on the issues that affect Rusizi District in the context of MFIs contribution toward Rural and Social Economic Development by reduction of poverty through the access of financial services by the promotion and empowerment on the current states of affairs whereby to the current population only accesses the existing financial service which now stands at 21% and the total coverage of MFIs which is at 14%. (MINECOFIN, 2007)

### **Purpose of the Study**

The purpose of the study was to demonstrate how Microfinance institution is an appropriate tool of expansion of financial service, especially for Poor people, it's convenient and flexible financial services, not just loans. Poor people need also savings, insurance, and cash transfer services for their economic development. Microfinance means building financial systems that serve the poor. It would reach the maximum number of poor clients only when it is integrated into the financial sector then the study investigated whether the microfinance institution are impacting rural social economic development.

## **Research Objectives**

### **General objective**

To identify and bring awareness on the role of microfinance institutions to the Rural Socio economic development;

### **Specific Objectives**

1. To determine the profile of respondents as regards to the annual income earned and the respondent occupation.
2. To find out whether existing micro finances contribute to enhancing Business in RUSIZI District
3. To identify the role of micro finances in terms of social and economic development

### **Research Questions**

The researcher focused on the following three main questions for the purposes of this study:

1. What is the respondent who saves its income in MFI's?
2. Are MFI's services and capacity contributing to business enhancement in Rusizi District?
3. Is there an existing role of MFI's in socioeconomic development in the population of Rusizi District?
4. Is there a significant relationship between microfinance institutions and rural social; economic development?

### **Hypothesis**

- a) There is a significance relationship between microfinance institutions and rural social economic development;

b) There is a significance effect of Microfinance institutions to Social economic development

## **Scope**

### **Geographic scope**

The study was carried out in Rusizi District in Rwanda. The district has a population of 375 245 individuals, and its population density is 375 hab. per square kilometer, and is situated in Western Province of Rwanda, composed of 18 sectors, then the research was conducted in 7 MFI's located in three sectors such as GIHUNDWE, KAMEMBE and MURURU ,its development is on the basis of Agriculture and commerce which is not yet developed (Rusizi DDP,2008). The population of this district is facing with the problem of poverty due to some investment sectors which are not developed there included those of microfinance based investment. Since 2007, some initiatives have been initiated through Rwanda Cooperative Agence (RCA) where every sector in Rwanda has sensitized to create unless one SACCO(Saving and Credit Cooperative) commonly called UMURENGE SACCO, Rusizi District has adopted such program which came to support other local initiatives already exist. It was the moment to look after whether those microfinance and SACCO's are impacting people both socially and economically.

### **Time scope**

The study took a period scope of between 2010 to 2011.

### **Content scope**

With regards to content scope, variables to be considered are the dependent (Rural Social economic Development) and independent (Microfinance Institutions).

## **Significance of the Study**

The study will be used by other scholars as a point of reference, in related areas as the like. The study will also be used by government and stake holders to improve the microfinance department by the recommendations that will be given by the researcher.

The study will also help beneficiaries of microfinance institutions and policy makers to readjust policies accordingly.

## **Operational Definitions of Key Terms**

### **Development**

Development is Essence of growth in an institution, nation and individuals, Development describes the growth of humans throughout the lifespan, from conception to death. The scientific study of human development seeks to understand and explain how and why people change throughout life. This includes all aspects of human growth, including physical, emotional, intellectual, social, perceptual, and personality development.

The scientific study of development is important not only to psychology, but also to sociology, education, and health care. Development does not just involve the biological and physical aspects of growth, but also the cognitive and social aspects associated with development throughout life.

### **Social development**

Social Development is a broad term that describes actions that are taken to build positive outcomes and prevent negative social outcomes that can adversely affect a community. These outcomes include issues ranging from crime, poverty, gang activity, school disengagement, teen pregnancy, addictions and substance abuse, obesity, and poor health.

The aim of social development is to improve the availability of support systems in the community that prevent negative outcomes before they occur or buffer (lessen) their impact. For example, rather than reacting to a crime after it has already happened, measures are taken within the community that prevent crime from ever occurring.

## **Economic development**

Economic development is a broad term that generally refers to the sustained, concerted effort of policymakers and community to promote the standard of living and economic health in a specific area. Such effort can involve multiple areas including development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy, and other initiatives. Economic development differs from economic growth. Whereas economic development is a policy intervention endeavor with aims of economic and social well-being of people, economic growth is a phenomenon of market productivity and rise in GDP. Consequently, as economist Amartya Sen points out: "economic growth is one aspect of the process of economic development."

## **Growth**

Essence of increase from one level to another.

Is an investment style that looks for stocks with strong earnings and/or revenue growth or growth potential .It can also be defined as Economic expansion as measured by any of a number of indicators, such as GDP.(Ads by Google)

## **Savings**

Amount of money collected for future use.

The portion of disposable income not spent on consumption of consumer goods but accumulated or invested directly in capital equipment or in paying off a home mortgage, or indirectly through purchase of securities.



## CHAPTER TWO

### REVIEW OF RELATED LITERATURE

#### Introduction

#### Microfinance – Important Role in Economic Growth

In a world where almost half the population lives on less than \$2.50 a day, microfinance is one of the better tool for poverty alleviation, economic growth and development in emerging economies. Loans offer the same benefits to major world economies that face growth problems.

Having said that, one must realize microfinance is not impervious to impact of the global financial crisis. Instead, we realize that loans can help lower-income groups setup and grow the small businesses, which generate income and employment that helps their communities and their economies. (Fehmeen on February 11th, 2010)

This fact is recognized in theory as well as in practice.

Jobs must be our number one focus in 2010... We should start where most new jobs do – in small businesses, companies that begin when an entrepreneur takes a chance on a dream, or a worker decides its time she became her own boss." *Barack Obama, President of USA, at the State of the Union Address, 2010, about the potential of microfinance.*Currently, microfinance services (loans, savings, etc.) are available to over 100 million of the world's poorest families (Microcredit Summit Report, 2009). That may partially explain the decline in poverty rates over the last three decades. In fact, 5% of the clients of Grameen Banks pull themselves out of poverty each year thanks to loans and most of ACCION USA's microfinance clients created 2.4 jobs during 2008, when many businesses were downsizing.

## **The Enterprising Spirit of the Poor is Valuable for the Economy**

Poor people do not want to stay poor. Like everyone else, they wish to put an end to their economic hardship and exploitation by either working or exploring self-employment. In the latter case, money can be raised through friends and family, gathered over time through savings, or obtained through loans from microfinance institutions. You can read about this in detail at the [Radical Frontiers Blog](#).

Naturally, small business owners are not afraid of failure and their 'resilience, grit and determination' has helped them march through the current economic recession, marked by a collapse of debt instruments. Bear in mind that all these are common characteristics of entrepreneurs.

Having said that, many micro ventures do not produce the inflated results we expect of them and some studies show microfinance is not all that it promises to be. This may be because of high interest rates on these loans, or other problems faced by microfinance, or even because of a shortage of tools to measure the social impact of microfinance.

There is a great deal of buzz about the wonders of microfinance which leads us to expect 'heart wrenching' and 'earth shattering' stories'. These were the expectations an enthusiastic microfinance activist, Taylor Akins (Kiva Fellows) had when he stepped out into the field. Failing to come across dramatic stories, he decided to take off this 'rose-colored glasses' and determine the real impact of these loans.

The majority of the people he interviewed ran businesses that were already prospering but they said the loan 'had a positive impact' on their lives and that despite the occasional lack in demand, most micro entrepreneurs considered expanding their business in the future. These are very mild yet encouraging responses because it shows microfinance helped contribute to their success over an 'extended period of time'.

"Is it possible my conceptualization of microfinance hype was informed by the poverty porn we are so often subjected to? ...I was looking for stories of transformation, emergence from the ashes, and overcoming impossible odds. Perhaps, I was just looking in all the wrong places. Why is it that tragedy and sadness are prerequisites to measuring success? The importance is in recognizing the positives (of microfinance) objectively and not trying to evaluate them based on the negatives that precede them." Read full article, looking at Microfinance Through Rose-Coloured Glasses.

Despite a multitude of studies devoted to the topic, the impact of microfinance programs on the poor in developing countries remains an intensely debated issue. Taken as a whole, the evidence is mixed: some studies find positive impacts, other studies find no or negative impacts, while other studies find positive impacts in some areas and no impact in other areas. (Sebstad and Chen, 1996 and Chua et al., 2000 for good summaries of existing impact studies.)

Nonetheless, the preponderance of evidence suggests the existence of a range of positive impacts, but also that the nature of these impacts and the causal impact chain are highly variable and less straightforward than often portrayed in the promotional brochures of microfinance institutions (MFIs).

Impact can theoretically occur at four levels: the enterprise, the individual, and the community. Impact studies have focused overwhelmingly on the first three of these.

Given the nature and mission of most MFIs, this focus is understandable. However, a result of this focus is that other potentially important, community-level impacts are often overlooked (Stephen 2002)

One type of community-level impact yet to be addressed in the microfinance literature is the so-called "community economic impact," defined here as the direct and induced impact of the MFI on local economic activity. The concept of community

economic impact captures the fact that any organization that engages in commercial transactions—for example, that buys supplies, equipment, or inventory from local merchants—or pays salaries to its employees, or makes loans to local residents will have some impact on the local economy. This impact can range from very small to very large, depending on a variety of factors, such as the size of the organization, the amount it and its employees spend in the local economy, the extent and nature of local competition, and the expenditure leakage outside of the local economy. This principle holds true for nonprofit and for-profit organizations alike. The exclusion of community economic impact from impact analyses of microfinance programs is an important gap in the literature, which this paper attempts to fill.

In theory, calculating the community economic impact of a microfinance program is straightforward. All that is needed are the direct expenditures of the MFI, its employees, and loan recipients (using loan proceeds) and an estimate of the relevant regional income multiplier. (The income multiplier measures the increase in spending over and above the original exogenous spending increase.) In practice, regional income multipliers are difficult to estimate. The standard approach to estimating income multipliers requires large amounts of detailed and disaggregated employment and production data. The lack of detailed and disaggregated employment and production data in many developing countries, however, makes standard regional income multipliers in those countries highly impractical.

Fortunately, alternative, indirect methods exist to estimate regional income multiplier that is less data-intensive and relatively easy to calculate. Arguably the best of these methods is the so-called “minimum requirements approach,” which requires only modest amounts of employment data of a type increasingly available in developing countries.

Minimum requirements refer to the level of employment in specific industries that is necessary to maintain the viability of a regional economy. Or alternatively, it is the

level of employment in specific industries required for a regional economy to be economically self-sufficient (Kim 2007)

The minimum requirements approach uses a relatively simple methodology to calculate the minimum employment requirement for a regional economy. The minimum employment requirement then forms the denominator of a simple ratio that yields the regional income multiplier.

We argue that the community economic impact of an MFI is an important piece to the overall impact puzzle and one that should be used, where possible, to arrive at the total impact of microfinance programs.

Consequently, our purpose in this article is to demonstrate how a community economic impact and regional income multiplier might be estimated for an MFI using the village health bank program of Project Hope in Portoviejo, Ecuador as an example.

### **Debates at the boundaries**

There are several key debates at the boundaries of microfinance. Practitioners and donors from the charitable side of microfinance frequently argue for restricting microcredit to loans for productive purposes—such as to start or expand a microenterprise. Those from the private-sector side respond that because money is fungible, such a restriction is impossible to enforce, and that in any case it should not be up to rich people to determine how poor people use their money.

Perhaps influenced by traditional Western views about usury, the role of the traditional moneylender has been subject to much criticism, especially in the early stages of modern microfinance. As more poor people gained access to loans from microcredit institutions however, it became apparent that the services of moneylenders continued to be valued. Borrowers were prepared to pay very high interest rates for services like quick loan disbursement, confidentiality and flexible repayment schedules. They did not always see lower interest rates as adequate compensation for the costs of

attending meetings, attending training courses to qualify for disbursements or making monthly collateral contributions. They also found it distasteful to be forced to pretend they were borrowing to start a business, when they were often borrowing for other reasons (such as paying for school fees, dealing with health costs or securing the family food supply). The more recent focus on inclusive financial systems (affords moneylenders more legitimacy, arguing in favour of regulation and efforts to increase competition between them to expand the options available to poor people.

Modern microfinance emerged in the 1970s with a strong orientation towards private-sector solutions. This resulted from evidence that state-owned agricultural development banks in developing countries had been a monumental failure, actually undermining the development goals they were intended to serve (the compilation edited by Adams, Graham & Von Pischke). Nevertheless public officials in many countries hold a different view, and continue to intervene in microfinance markets.

There has been a long-standing debate over the sharpness of the trade-off between 'outreach' (the ability of a microfinance institution to reach poorer and more remote people) and its 'sustainability' (its ability to cover its operating costs—and possibly also its costs of serving new clients—from its operating revenues).<sup>[13]</sup> Although it is generally agreed that microfinance practitioners should seek to balance these goals to some extent, there are a wide variety of strategies, ranging from the minimalist profit-orientation of BancoSol in Bolivia to the highly integrated not-for-profit orientation of BRAC in Bangladesh. This is true not only for individual institutions, but also for governments engaged in developing national microfinance systems.

Microfinance experts generally agree that women should be the primary focus of service delivery. Evidence shows that they are less likely to default on their loans than men.

Industry data from 2006 for 704 MFIs reaching 52 million borrowers includes MFIs using the solidarity lending methodology (99.3% female clients) and MFIs using

individual lending (51% female clients). The delinquency rate for solidarity lending was 0.9% after 30 days (individual lending—3.1%), while 0.3% of loans were written off (individual lending—0.9%).<sup>[14]</sup> Because operating margins become tighter the smaller the loans delivered, many MFIs consider the risk of lending to men to be too high. This focus on women is questioned sometimes, however. A recent study of microentrepreneurs from Sri Lanka published by the World Bank found that the return on capital for male-owned businesses (half of the sample) averaged 11%, whereas the return for women-owned businesses was 0% or slightly negative. (Christen 2004) Micro financial services may be needed everywhere, including the developed world. However, in developed economies intense competition within the financial sector, combined with a diverse mix of different types of financial institutions with different missions, ensures that most people have access to some financial services. Efforts to transfer microfinance innovations such as solidarity lending from developing countries to developed ones have met with little success.<sup>[16]</sup>

### **Financial needs and financial services**

In developing economies and particularly in the rural areas, many activities that would be classified in the developed world as financial are not monetized: that is, money is not used to carry them out. Almost by definition, poor people have very little money. But circumstances often arise in their lives in which they need money or the things money can buy.

In Stuart Rutherford's recent book *The Poor and Their Money*, he cites several types of needs:

**Lifecycle Needs:** such as weddings, funerals, childbirth, education, homebuilding, widowhood, old age.

**Personal Emergencies:** such as sickness, injury, unemployment, theft, harassment or death.

Disasters: such as fires, floods, cyclones and man-made events like war or bulldozing of dwellings.

Investment Opportunities: expanding a business, buying land or equipment, improving housing, securing a job (which often requires paying a large bribe), etc.

Poor people find creative and often collaborative ways to meet these needs, primarily through creating and exchanging different forms of non-cash value. Common substitutes for cash vary from country to country but typically include livestock, grains, jewelry, and precious metals.

As Marguerite Robinson describes in *The Microfinance Revolution*, the 1980s demonstrated that "microfinance could provide large-scale outreach profitably," and in the 1990s, "microfinance began to develop as an industry" (2001, p. 54). In the 2000s, the microfinance industry's objective is to satisfy the unmet demand on a much larger scale, and to play a role in reducing poverty. While much progress has been made in developing a viable, commercial microfinance sector in the last few decades, several issues remain that need to be addressed before the industry will be able to satisfy massive worldwide demand. The obstacles or challenges to building a sound commercial microfinance industry include:

Inappropriate donor subsidies

Poor regulation and supervision of deposit-taking MFIs

Few MFIs that meet the needs for savings, remittances or insurance

Limited management capacity in MFIs

Institutional inefficiencies

Need for more dissemination and adoption of rural, agricultural microfinance methodologies

Ways in which poor people manage their money



## **Saving up**

Rutherford argues that the basic problem poor people as money managers face is to gather a 'usefully large' amount of money. Building a new home may involve saving and protecting diverse building materials for years until enough are available to proceed with construction. Children's schooling may be funded by buying chickens and raising them for sale as needed for expenses, uniforms, bribes, etc. Because all the value is accumulated before it is needed, this money management strategy is referred to as 'saving up'. Often people don't have enough money when they face a need, so they borrow. A poor family might borrow from relatives to buy land, from a moneylender to buy rice, or from a microfinance institution to buy a sewing machine. Since these loans must be repaid by saving after the cost is incurred, Rutherford calls this 'saving down'. Rutherford's point is that microcredit is addressing only half the problem, and arguably the less important half: poor people borrow to help them save and accumulate assets. Microcredit institutions should fund their loans through savings accounts that help poor people manage their myriad risks.

## **Saving down**

Most needs are met through mix of saving and credit. A benchmark impact assessment of Grameen Bank and two other large microfinance institutions in Bangladesh found that for every \$1 they were lending to clients to finance rural non-farm micro-enterprise, about \$2.50 came from other sources, mostly their clients' savings. (Westover 2008) This parallels the experience in the West, in which family businesses are funded mostly from savings, especially during start-up.

Recent studies have also shown that informal methods of saving are unsafe. For example a study by Wright and Mutesasira in Uganda concluded that "those with no option but to save in the informal sector are almost bound to lose some money – probably around one quarter of what they save there." (David 2008)

The work of Rutherford, Wright and others has caused practitioners to reconsider a key aspect of the microcredit paradigm: that poor people get out of poverty by borrowing, building microenterprises and increasing their income. The new paradigm places more attention on the efforts of poor people to reduce their much vulnerability by keeping more of what they earn and building up their assets. While they need loans, they may find it as useful to borrow for consumption as for microenterprise. A safe, flexible place to save money and withdraw it when needed is also essential for managing household and family risk.

### **Current scale of microfinance operations**

No systematic effort to map the distribution of microfinance has yet been undertaken. A useful recent benchmark was established by an analysis of 'alternative financial institutions' in the developing world in 2004. The authors counted approximately 665 million client accounts at over 3,000 institutions that are serving people who are poorer than those served by the commercial banks. Of these accounts, 120 million were with institutions normally understood to practice microfinance. Reflecting the diverse historical roots of the movement, however, they also included postal savings banks (318 million accounts), state agricultural and development banks (172 million accounts), financial cooperatives and credit unions (35 million accounts) and specialized rural banks (19 million accounts).

Regionally the highest concentration of these accounts was in India (188 million accounts representing 18% of the total national population). The lowest concentrations were in Latin American and the Caribbean (14 million accounts representing 3% of the total population) and Africa (27 million accounts representing 4% of the total population, with the highest rate of penetration in West Africa, and the highest growth rate in Eastern and Southern Africa ). Considering that most bank clients in the developed world need several active accounts to keep their affairs in order, these figures indicate that the task the microfinance movement has set for itself is still very far from finished.

By type of service "savings accounts in alternative finance institutions outnumber loans by about four to one. This is a worldwide pattern that does not vary much by region."<sup>[22]</sup>

An important source of detailed data on selected microfinance institutions is the *MicroBanking Bulletin*, which is published by Microfinance Information Exchange. At the end of 2009 it was tracking 1,084 MFIs that were serving 74 million borrowers (\$38 billion in outstanding loans) and 67 million savers (\$23 billion in deposits).(chuck 2008)

The microcredit era that began in the 1970s has lost its momentum, to be replaced by a 'financial systems' approach. While microcredit achieved a great deal, especially in urban and near-urban areas and with entrepreneurial families, its progress in delivering financial services in less densely populated rural areas has been slow.

The new financial systems approach pragmatically acknowledges the richness of centuries of microfinance history and the immense diversity of institutions serving poor people in developing world today. It is also rooted in an increasing awareness of diversity of the financial service needs of the world's poorest people, and the diverse settings in which they live and work.

Brigit Helms in her book 'Access for All: Building Inclusive Financial Systems', distinguishes between four general categories of microfinance providers, and argues for a pro-active strategy of engagement with all of them to help them achieve the goals of the microfinance movement.(Nicholas 2009)

### **Informal financial service providers**

These include moneylenders, pawnbrokers, savings collectors, money-guards, ROSCAs, ASCAs and input supply shops. Because they know each other well and live in the same community, they understand each other's financial circumstances and can offer very flexible, convenient and fast services. These services can also be costly and

the choice of financial products limited and very short-term. Informal services that involve savings are also risky; many people lose their money.

### **Member-owned organizations**

These include self-help groups, credit unions, and a variety of hybrid organizations like 'financial service associations' and CVECAs. Like their informal cousins, they are generally small and local, which means they have access to good knowledge about each others' financial circumstances and can offer convenience and flexibility. Since they are managed by poor people, their costs of operation are low. However, these providers may have little financial skill and can run into trouble when the economy turns down or their operations become too complex. Unless they are effectively regulated and supervised, they can be 'captured' by one or two influential leaders, and the members can lose their money.

### **NGOs**

The Microcredit Summit Campaign counted 3,316 of these MFIs and NGOs lending to about 133 million clients by the end of 2006. Led by Grameen Bank and BRAC in Bangladesh, Prodem in Bolivia, and FINCA International, headquartered in Washington, DC, these NGOs have spread around the developing world in the past three decades; others, like the Gamelan Council, address larger regions. They have proven very innovative, pioneering banking techniques like solidarity lending, village banking and mobile banking that have overcome barriers to serving poor populations. However, with boards that don't necessarily represent either their capital or their customers, their governance structures can be fragile, and they can become overly dependent on external donors.

### **Formal financial institutions**

In addition to commercial banks, these include state banks, agricultural development banks, savings banks, rural banks and non-bank financial institutions.

They are regulated and supervised, offer a wider range of financial services, and control a branch network that can extend across the country and internationally. However, they have proved reluctant to adopt social missions, and due to their high costs of operation, often can't deliver services to poor or remote populations. The increasing use of alternative data in credit scoring, such as trade credit is increasing commercial banks' interest in microfinance.(Stuart 2002)

With appropriate regulation and supervision, each of these institutional types can bring leverage to solving the microfinance problem. For example, efforts are being made to link self-help groups to commercial banks, to network member-owned organizations together to achieve economies of scale and scope, and to support efforts by commercial banks to 'down-scale' by integrating mobile banking and e-payment technologies into their extensive branch networks.

Due to the unbalanced emphasis on credit at the expense of microsavings, as well as a desire to link Western investors to the sector, peer-to-peer platforms have developed to expand the availability of microcredit through individual lenders in the developed world. The volume channeled through Kiva's peer-to-peer platform is about \$100 million as of November 2009 (Kiva facilitates approximately \$5M in loans each month). In comparison, the needs for microcredit are estimated about 250 bn USD as of end 2006.

## **Criticisms**

Most criticisms of microfinance have actually been criticisms of microcredit, delivered in the absence of other microfinance services such as savings, remittances, payments and insurance.

For example, there has been much criticism of the high interest rates charged to borrowers. The real average portfolio yield cited by the sample of 704 microfinance institutions that voluntarily submitted reports to the MicroBanking Bulletin in 2006 was

22.3% annually. However, annual rates charged to clients are higher, as they also include local inflation and the bad debt expenses of the microfinance institution. Muhammad Yunus has recently made much of this point, and in his latest book argues that microfinance institutions that charge more than 15% above their long-term operating costs should face penalties.

## **Theoretical perspectives**

### **Theory of capitalism, self-interest, and the infant-industry argument**

Microfinance is part of a mega project that proposes to add a new chapter in the theory of capitalism. As noted above, this project is founded upon economic and psychological ideas. The economic idea is the orthodox infant industry argument that justifies protectionist measures within the framework of the classical theory of free trade. The psychological idea is a criticism of the capitalist entrepreneurs' profit maximizing motive. This suggests that the psychological and economic arguments need critical evaluation to judge the academic virtue of the microfinance theory. With this objective, the relevant literature is briefly reviewed below, beginning with the psychological idea, for this idea forms the foundation of the theory of capitalism.

### **Social consciousness, self interest, and the creation of private wealth**

According to Adam Smith, considered the main theorist of capitalism, the system is based on the assumption that continued prosperity critically depends upon the progressive creation of private wealth. In Smith's view, the prime mover behind the creation of private wealth is human self-interest. This maxim is best summarized in Smith's own words. In his classic *An Inquiry into the Nature and Causes of Wealth of Nation*, published in 1776, Smith states: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their self-interests; we address ourselves not to their humanity but to their self-love and never talk to them of our own necessities but of their advantages" (Smith, 1939: 26-27).

The *Wealth of Nations* says little about the psychological aspect of the theory. Smith articulates the psychological components in his other book, *The Theory of Moral Sentiments*. Published seventeen years before his *Wealth of Nations*, this book deals with moral theory. Smith advances the maxim that human self-interest acts as a prime mover of the capitalist development. *Moral Sentiments* is an inquiry into moral psychology, for which the main concern is the nature of moral judgment (Raphael, 1985; Sprague, 1967).

How selfish soever, man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it. Of this kind is pity or compassion, the emotion, which we feel for the misery of others, when we either see it, or are made to conceive it in a very lively manner. That we often derive sorrow from the sorrow of others is a matter of fact too obvious to require any instances to prove it; for this sentiment, like all other original passions of human nature, is by no means confined to be virtuous and humane, though they perhaps may feel it with the most exquisite sensibility. The greatest ruffian, the most hardened violators of the laws of society, is not all together without it. (Smith, 1976:9)

This opening paragraph is both an attack on the ethical theories of Thomas Hobbes and Bernard Mandeville and an indication of the central idea of his work on moral philosophy (Weinstein, 2001). In *The Leviathan*, Hobbes, a die-heart materialist in his methods of philosophical investigation, paints a very negative picture of human nature. His materialistic conception of human nature may be understood from his interpretation of human life. He sees human life simply as motion of limbs. The human heart is simply a spring; nerves are nothing but a complex system of strings; and joints are just wheels which give motion to the whole body (Hobbes, 1960). In other words, Hobbes conceives human beings as nothing more than living machines.

These living machines are moved to actions by two natural passions, appetites and aversions. There are different kinds of appetites, some of which are innate and

others social. The most important social appetite-the main source of conflict and chaos in society-is the desire for power. Everyone desires it, naturally, but all cannot have it at the same time. This situation leads to a perpetual condition of war of every man against every man in society. In this situation, the notions of right and wrong, and justice and injustice have little meaning. Where there is no common power, there is no law, and without law, there are no injustices. Force and fraud are two cardinal virtues in war. Consequently, reason, which basically means prudence of self-preservation, dictates that human beings must submit themselves under the care of civil authority through a voluntary social contract. In other words, the foundation of Hobbes' political theory is his conception of human nature: by virtue of their natural constitution, human beings are propelled only by self-interest.

## **Related Studies**

### **Evidence for reducing poverty**

Research on the effectiveness of microfinance as a tool for economic development remains mixed, in part owing to the difficulty in monitoring and measuring this impact. At the 2008 Innovations for Poverty Action/Financial Access Initiative Microfinance Research conference, economist Jonathan Morduch of New York University noted there are only one or two methodologically sound studies of microfinance's impact. Grameen Foundation has released two papers summarizing the state of research on the impact of microfinance on poverty: "Measuring the Impact of Microfinance, Taking Stock of What We Know" by Nathanael Goldberg (now with Innovations for Poverty Action) and an update, "Measuring the Impact of Microfinance: Taking Another Look" by Professor Kathleen Odell. These two papers identify scores of findings indicating positive impact in research conducted over the last twenty years, as well as some findings that suggest limited or negative impact in some cases.

The BBC *Business Weekly* program reported that much of the supposed benefits associated with microfinance, are perhaps not as compelling as once thought. In a radio



interview with Professor Dean Karlan of Yale University, a point was raised concerning a comparison between two groups: one African, financed through microcredit and one control group in the Philippines. The results of this study suggest that many of the benefits from microcredit are in fact loaned to people with existing business, and not to those seeking to establish new businesses. Many of those receiving microcredit also used the loans to supplement the family income. The income that went up in business was true only for men, and not for women. This is striking because one of the supposed major beneficiaries of microfinance is supposed to be targeted at women. Professor Karlan's conclusion was that whilst microcredit is not necessarily bad and can generate some positive benefits, despite some lenders charging interest rates between 40-60%, it isn't the panacea that it is purported to be. He advocates rather than focusing strictly on microcredit, also giving citizens in poor countries access to rudimentary and cheap savings accounts.

To further the point stated by Prof Karlan, microfinancing begets the general tendency of a small business initially supported on credit to gain profits with time and generate micro savings. In his latest study, the famous two time Pulitzer prize winner, Nicholas Donabet Kristof states that there is no evidence of any negative influence of micro financing but countless examples of people now looking at the bigger picture and saving for better things have surfaced. The example of BancoSol (Bolivia), where the number of savers has grown to twice as much as the number of borrowers, further strengthens his theory.

Sociologist Jonathan H. Westover, Ph.D. found that much of the evidence on the effectiveness of microfinance for alleviating poverty is based in anecdotal reports or case studies. He initially found over 100 articles on the subject, but included only the 6 which used enough quantitative data to be representative, and none of which employed rigorous methods such as randomized control trials similar to those reported by Innovations for Poverty Action and the M.I.T. Jameel Poverty Action Lab. One of these studies found that microfinance reduced poverty. Two others were unable to conclude

that microfinance reduced poverty, although they attributed some positive effects to the program. Other studies concluded similarly, with surveys finding that a majority of participants feel better about finances with some feeling worse.<sup>[35]</sup>

### **Microfinance and social interventions**

There are currently a few social interventions that have been combined with micro financing to increase awareness of HIV/AIDS. Such interventions like the "Intervention with Microfinance for AIDS and Gender Equity" (IMAGE) which incorporates micro financing with "The Sisters-for-Life" program a participatory program that educates on different gender roles, gender-based violence, and HIV/AIDS infections to strengthen the communication skills and leadership of women "The Sisters-for-Life" program has two phases where phase one consists of ten one-hour training programs with a facilitator with phase two consisting of identifying a leader amongst the group, train them further, and allow them to implement an Action Plan to their respective centers.

Microfinance has also been combined with business education and with other packages of health interventions. A project undertaken in Peru by Innovations for Poverty Action found that those borrowers randomly selected to receive financial training as part of their borrowing group meetings had higher profits, although there was not a reduction in "the proportion who reported having problems in their business".

### **Social and economic impacts**

The review of the literature also points to several specific conclusions about the impact of Microfinance on poverty reduction

Evidence shows the positive impact of microfinance on poverty reduction as it relates to the first six out of seven Millennium Goals.

While the quality of many studies could be improved, there is an overwhelming amount of evidence substantiating a beneficial effect on:

There are fewer studies with evidence on health, nutritional status and primary schooling attendance, but the existing evidence is largely conclusive and positive (Wright 2000).

### **Reaching the poorest**

Despite disagreement on specific definitions of levels of poverty, there is a general consensus that: Microfinance is not for everyone. Most importantly, entrepreneurial skills and ability are necessary to run a successful microenterprise and not all potential customers are equally able to take on debt. While these points will be true across all strata of poverty, it is assumed that they will have a greater effect on the very poorest. The sick, mentally ill, destitute etc. who form a minority of those living below the poverty line are typically not good candidates for microfinance. Most researchers agree that this group of people would be better candidates for direct basic assistance. More optimistically, microfinance can be effective for a broad group of clients, including those who are living in the *bottom half* of those below a country's poverty line (to use a categorization proposed by CGAP). We will call this strata the "*poorest*" and note that they constitute the group that generally intersects the various definitions of extreme poverty: landlessness, limited access to basic social services, average per capita income of less than \$1 a day, and bottom third of a relative poverty ranking. Specifically, various studies show: There is no evidence of an inverse relationship between a client's level of poverty and their entrepreneurial ability (Garson).

Borrowing patterns and the inclination to save have been found to be similar across clients at different levels of poverty (Zaman 2000) Financial performance of MFIs targeted to the poorest clients can be comparable to those of MFIs that do not reach the poorest (Khandker 1998; Gibbons and Meehan 2000; Churchill 2000)

There is little evidence that clients with existing microenterprises or employment (often defined as “the economically active”) are the only ones that can benefit from microfinance (Robinson 2001; Hulme and Mosley 1997; Zaman 2000), and the little evidence that exists here is subject to debate about methodology.

## **Targeting**

While it has been demonstrated in a number of studies that the poorest can improve their socioeconomic conditions, researchers have pointed to several general issues that make microfinance work for the poorest:

Even a well-designed microfinance programme is unlikely to have a positive impact on the poorest unless it specifically seeks to reach them through appropriate product design and targeting (Wright 2000). Experience shows that unless there is a targeting tool, the poorest will either be missed or they will tend to exclude themselves because they do not see the programs as being for them, do not have the “correct” clothes, etc. (Navajas et al 2000; Simanowitz, FFH)

Mission creep: There is a strong tendency to move to the top of the clientele group, and to give little attention to the needs of the poorest, with the end result that their proportion diminishes over time (Navajas et al 2000). Only MFIs that design programs around the needs of the poorest are likely to retain them as clients.

## **Savings vs. Credit**

There is general consensus that facilitating savings is important, because there is a high demand for it among the poorest and because savings play a role in protecting against the seasonality of cash-flows and fulfilling an insurance function. In addition, building up deposits reinforces financial discipline for customers and can eventually yield collateral and serve as a source of funding for MFIs.

Savings alone, however, have only a minor developmental impact: the protection against shocks might allow children to remain in school or income-earners to get medical treatment and minimize time away from work, but it is slow to create any significant wealth in itself unless credit is also available.

MFIs that focus on savings more than credit tend to reach a smaller proportion of the poorest, have a lower and slower impact on poverty reduction, and are therefore less conducive to reaching the Millennium Goals by the target dates. While the savings-first institutions are easier to finance by donor agencies (far less start-up capital required), the few comparative studies available show that borrowers fare better than non borrowers (Chen and Snodgrass 1999; Fruman 1998).

### **Synergies between microfinance and other programs**

It is clear from the evidence that there are strong potential synergies between microfinance and the provision of basic social services for clients. The benefits derived from microfinance, basic Education, and primary health is interconnected, and programs have found that the impact of each can increase when they are delivered together.

The marginal cost of providing education or basic health information can be substantially reduced when the infrastructure for microfinance is already in place

Services provided need to be relevant to the needs of the target group and not just an add-on that is of poor quality (UNICEF 1997; McNelly and Dunford 1999, 1998; Marcus 1999)

Very few studies directly compare alternative interventions. Most researchers conclude that it is difficult to isolate the impact of a specific development tool as each contributes to the others.

While the question of which development tool gives the “biggest bang for the buck” is legitimate in principle, in practice it is difficult to compare the benefits achieved by different interventions.

With this in mind, it should be noted that:

Microfinance has the potential to have an *immediate* impact on a wide range of poverty reduction targets: income, health, nutrition, and education.

Basic health is likely the most crucial intervention, but should be combined with microfinance in order to strengthen the impact on the #1 Millennium Goal of reducing those living on less than \$1/day.

Expanding primary education for children has a wide-ranging impact on the poverty reduction targets (income, health, nutrition, fertility) but any benefits will be *delayed*, thus reducing its effectiveness for reaching the targets by 2015.

### **Cost-effectiveness and financial sustainability**

Microfinance compares favorably to other interventions particularly with regard to cost effectiveness and prospects for sustainability:

*Cost-effectiveness:* An advantage of microfinance is that donor investment is recycled and reused (Wright 2000). Direct comparisons done by Khandker (1998) show that microfinance can be a more cost-effective developmental tool than alternatives including formal rural financial intermediation, targeted food interventions, and rural infrastructure development projects. Moreover, unlike many other interventions, costs for microfinance tend to diminish with the scale of outreach (Rhyne 1997; Christen et al 1996)

*Sustainability:* Few, if any, other development tools have the potential to become sustainable such that, after initial start-up grants, new inputs are not required for every future client.

There need not be a trade-off between reaching the poorest and attaining financial sustainability. Although there are no rigorous econometric models to substantiate it, there is ample evidence that MFIs targeting the poorest can fare as well financially as those that don't (Gibbons and Meehan 2000; Churchill 2000)

There is also ample anecdotal evidence that MFIs that target poorer clients can achieve substantially higher repayment rates than those that target richer clients (Pro Mujer vs. BancoSol; Grameen/BRAC vs. traditional banking system in Bangladesh)

It should be noted that emphasizing financial sustainability above all else can have the practical effect of excluding the poorest because of the widespread misperception that the poorest are a greater credit risk and the reality that the unit costs of small loans tend to exceed the unit costs of larger loans.

## **Conclusions**

There is ample evidence to support the positive impact of microfinance on poverty reduction as it relates to fully six out of seven of the Millennium Goals. In particular, there is overwhelming evidence substantiating a beneficial effect on income smoothing and increases to income.

There is less evidence to support a positive impact on health, nutritional status and increases to primary schooling attendance. Nevertheless, the evidence that does exist is largely positive.

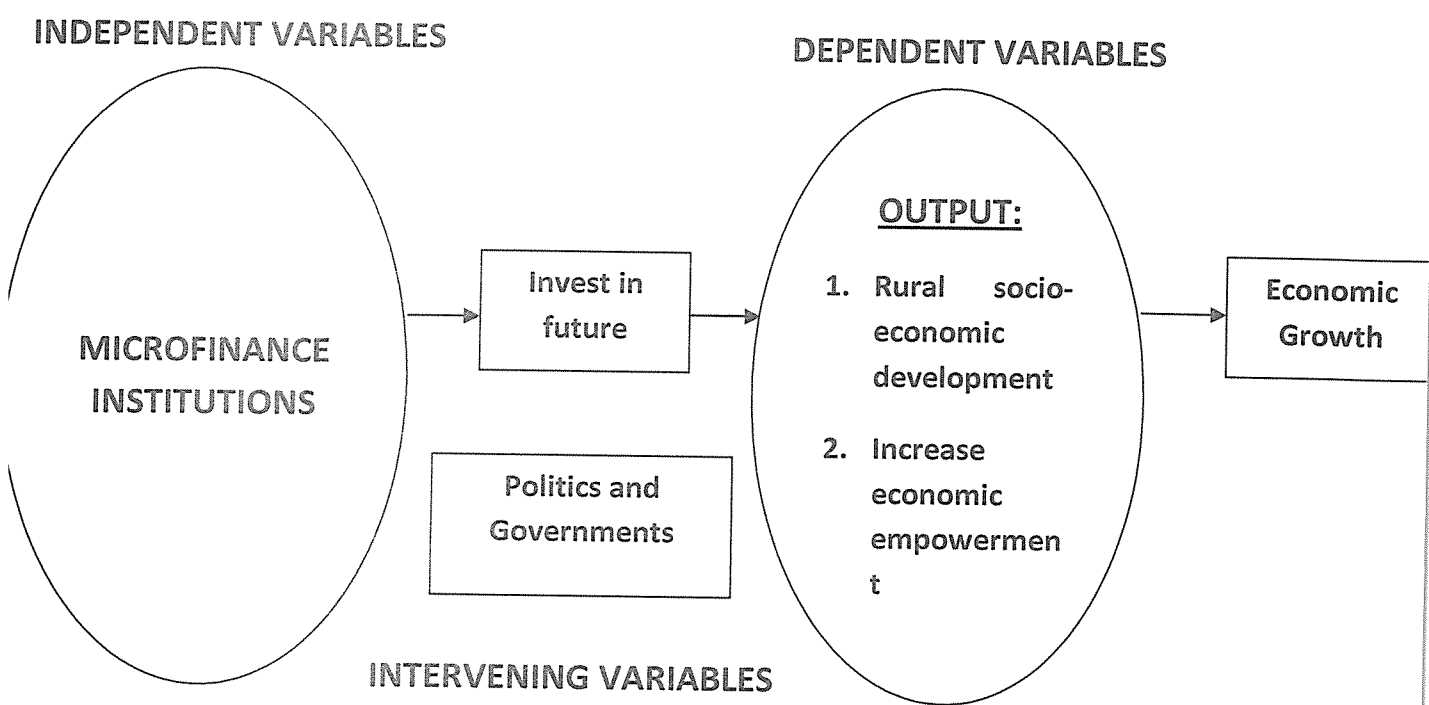
Microfinance is an instrument that, under the right conditions, fits the needs of a broad range of the population—including the poorest—those in the bottom half of people living below the poverty line. While there will be people in this group who will not be suited for microfinance because of mental illness, etc., the exclusion of this small percentage of the population will likely not be a limiting operational issue for MFIs.

Empirical indications are that the poorest can benefit from microfinance from both an economic and social well-being point-of-view, and that this can be done without jeopardizing the financial sustainability of the MFI. While there are many biases presented in the literature against extending microfinance to the poorest, there is little empirical evidence to support this position.

However, if microfinance is to be used, specific targeting of the poorest will be necessary.

Without this, MFIs are unlikely to create programs suitable for and focused on that group.

**Figure 1: Conceptual Framework**





## **CHAPTER THREE**

### **METHODOLOGY**

#### **Research Design**

The study was quantitative in nature and employed a descriptive and correlation survey design. The descriptive was proposed for describing the area of research and describing the relationship between the study variables and its reliability in showing the degree of relationship between Microfinance system in selected MFIs and Rural Socio economic development using the Pearson's Linear Correlation Coefficient.

#### **Research Population**

The target population for the study was 3 community Leaders of 3 selected sectors, 7 employees(Managers) of the seven selected microfinance institutions such as Umurenge SACCOS (Mururu, Gihundwe and Kamembe), Amasezerano, Urwego, Agaseke and Inkingi both operating in Rusizi District Rwanda and their close 6861 clients with business establishments within Rusizi District, Rwanda. The total population of employees and clients within the two microfinance institutions selected and clients was 6873. This comprised of population of 7 employees from the seven micro finance institutions, 3 community leaders and 6861 of their clients operating business projects within Rusizi District. The study targeted the seven financial institutions and the clients fore-mentioned because there are many clients of the financial institutions in the area undertaking business and the place is accessible and convenient to the researcher in terms of transport.

**Table 3.1 Research Population****n = 378**

<b>Sector</b>	<b>Microfinance Institutions</b>	<b>Population</b>	<b>Number</b>
KAMEMBE	SACCO	-Clients	2570
	AMASEZERANO	-Manager	3
	URWEGO	-Community leader	2
MURURU	SACCO	-Clients	2511
	AGASEKE	-Manager	3
	INKINGI	-Community leader	2
GIHUNDWE	SACCO	-Clients	1780
		-Manager	1
		-Community leader	1
<b>Total</b>			<b>6873</b>

**Source: primary data, 2012****Sample Size**

The minimum sample size was computed using the Sloven's formula, which states that, for any given population, the required sample size is given by;

$$n = \frac{N}{1 + N(e^2)} , \text{ Where;}$$

n = the required sample size; N = the known population size; and e = the margin of error, which is = 0.05. Given a total population of 6873 respondents of Rusizi district, a

sample size was:  $n = \frac{N}{1 + N(e^2)}$   $\implies n = \frac{6873}{1 + 6873 \cdot (0.05)^2} = 378$  respondents drawn from the population illustrated in Table 3.1.

### **Sampling Procedure**

Enon (1995) advises that it is not possible that everybody among the accessible population can participate.

Sampling is the selection of research participants from an entire population, and involves decisions about which people, settings, events, behaviors and or social processes to observe (Blanche, Durrheim, Painter, 2006).

The researcher adopted purposive sampling to select the sample size. This is where one selects participants who have the required information according to the objectives of his/her study. The participants were selected according to the researcher's interest in them.

In this study, we selected the Microfinance workers, MFI's clients and Community Leaders as a representative of community, because they are an important component of Finance services and Socioeconomic development of the area under study, by bridging between the need of service delivery and social and economic development issues. MFI's workers were selected because they provided the information about financial services, Local Leaders provided the information of socioeconomic development, and the Community (clients of MFI's) gave the information about the role of MFI's in their life improvement.

### **Validity and Reliability of Instruments**

The validity and reliability of instruments was measured using content validity of instrument. Two raters/ experts in the field of study were used to rate the content in the questionnaire. These experts also assisted in assessing the phrasing of the questions to avoid ambiguity. The researcher viewed each statement with the help of

experts and assessed the extent to which the questions were related to the topic of the study. The researcher compiled the responses from raters and computed the content validity index (CVI). The estimation for validity was 0.75 and above, meaning that any value below it would make the instruments invalid. Table 2 shows a summary of the experts' ratings.

$$CVI = \frac{\text{Number of declared valid}}{\text{Total number of items}}$$

**Table 3.2: Determination of Reliability and Validity of Instrument**

**n = 378**

	<b>Relevant items</b>	<b>Not relevant items</b>	<b>Total number of Items</b>
Availability of MFI'S in Rusizi District	5	1	6
Portfolios/Overall area of action	6	2	8
Capacity of MFI's to deliver services	3	0	3
Socio-economic development	12	2	14
<b>Total</b>	<b>26</b>	<b>5</b>	<b>32</b>

$$CVI = \frac{26}{32} = 0.81$$

The CVI was 0.81, was greater than 0.75, hence the instrument was considered valid.

To ensure reliability of the instrument, data collection instruments were pre-tested. In pre-testing, the designed instruments were tried out on selected RIM Clients that did not form part of respondents. The questionnaires were amended for mistakes and a final copy was presented to the Faculty supervisor for approval. Cronbach Alpha was used to compute the reliability of the questionnaires that had been pre-tested and this was 0.75 hence it was considered to be reliable.

## **Research Instrument**

### **Questionnaire**

A questionnaire is a data collection method that employs the use of a group of written questions used to gather information from respondents (Blanche Durrheim, Painter 2006). This involved administering unstructured questionnaires with open ended questions and a few closed questions in which there are definite, concrete and pre-determined questions for the respondents to answer on their own.

These questions were presented with exactly the same wording and in the same order to all respondents. A number of questions were printed or typed in a definite order on a form or set of forms and mailed to the respondents. This method allowed the respondents' time to fill in the questionnaires at the time of their convenience.

### **Interview Method (guide interview)**

Interview method involves face-to-face conversation between the interviewer and the respondents for the purpose of obtaining information (Mbaaga 2000:38). According to Asimwe (2007), an interview is a face-to-face attempt to obtain reliable and valid measures in the form of verbal responses from one or more responses. An interview is a person to person interaction between two or more people with a specific purpose (Kumar, 2005). This method involved a systematic collection of data. It also involved open-ended questions drafted on a schedule. The researcher asked several questions requiring verbal responses that range from general to specific information. This was enable the researcher elicit information from key respondents and was also

enable the researcher control the flow of questions given to the respondent which is not possible with the written questionnaires. This method was also ensure clarification of some issues mentioned in other methods. Attention was directed towards simplifying the questions and making the questions as understandable as possible.

### **Observation**

An observation is a purposeful, systematic, and selective way of watching and listening to an event as it takes place (Kumar, 2005). The term observation is used to indicate that object or subject of an investigation is being subjected to close visual surveillance and that information obtained will be related to more general propositions or theories (Busha and Harter 1980). The advantage of using observation method in research is that it eliminates subjective bias and that information obtained would relate to what is happening. The researcher adopted both participant and non-participant observation to be able to get a better picture of what is taking place.

### **Document Review method**

Documents are the information materials that contain information about a phenomenon to be studied (Busha and Harter 1980). These documents involved content analysis of both published and unpublished literature. This literature may be in the form of policies, operational manuals, diaries, minutes, professional journals, books, reports, abstracts and articles from the internet. These documents provided an opportunity for making in-depth understanding of statistical information.

### **Data Gathering Procedures**

#### **Before the administration of the questionnaires**

The researcher requested for an introduction letter from the School of Postgraduate Studies and Research (SPGSR) addressed to the authorities of Rusizi district under study for the researcher to be permitted to conduct the study. The researcher prepared the questionnaires and sat with selected research assistants to discuss and brief them on the sampling techniques and data gathering procedures.

The researcher utilized the table on respondents (Table 1) to determine the number of participants.

### **During the administration of the questionnaires**

Specifically, the researcher together with 5 research assistants requested the respondents: (1) to sign the informed consent; (2) to answer all questions hence leave no item unanswered; (3) to avoid biases and to be objective in answering the questionnaires.

The researcher together with research assistants ensured that retrieving the questionnaires was done within two weeks from the date of distribution. All questionnaires retrieved were checked to ensure they were completely filled in.

### **After the administration of the questionnaires**

The data collected was organized, collated, summarized, statistically treated and drafted in tables using the Statistical Package for Social Sciences (SPSS).

## **Data analysis**

### **Profile of the respondent**

To determine the profile of the respondents, the frequency and percentage distribution were used.

### **To determine the level of agreement's respondent on each item**

The mean was used in order to earn the level of respondent perception's agreements for each item (socio-economic development, Microfinance services...). To interpret the obtained data, the following numerical values and descriptions were used:

Mean Range	Description	Interpretation
3.26-4.00	Strongly agree	Very High
2.51-3.25	Agree	High
1.76-2.50	Disagree	Moderate
1.00-1.75	Strongly disagree	Low

#### **To test relationships between variables**

A correlation coefficient was used to test the hypothesis on correlation at significance level of 0.05.

#### **To test effects and variation between variables**

Regression analysis and R-square were used to test relationships, effects and variations between dependent variables and independent variables under study.

#### **Ethical Considerations**

To ensure that ethics is practiced in this study as well as utmost confidentially for the respondents and the data provided by them, the following were done: coding of all questionnaires; the respondents were asked to sign the informed consent letter; endeavored to be very respectful to all respondents and to all participants who were party of this study.

#### **Limitations of the Study**

The anticipated threats to validity in this study were as follows:

Intervening or confounding variables which were beyond the researcher's control such as honesty of the respondents and personal biases.

To minimize such conditions, the researcher requested the respondents to be as honest as possible and to be impartial/ unbiased when answering the questionnaires.



Testing: The use of research assistants might render inconsistencies such as differences in conditions and time when the data was obtained from respondents. This was minimized by orienting and briefing the research assistants on the data gathering procedures.

Instrumentation: The research tools were non-standardized hence a validity and reliability test was done to arrive at a reasonable measuring tool.

Attrition: A representative sample might not be reached as computed due to circumstances within the respondents and beyond the control of the researcher. Exceeding beyond the minimum sample size was done by the researcher to avoid this situation.

## **CHAPTER FOUR**

### **PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA**

#### **Introduction**

This chapter presents the analyzed data and interpretations made there of following the study objectives. It specifically shows data on profile of respondents, level of the impact of Microfinance Institutions on Socio-economic Development in Rusizi District specifically in Kamembe, Gihundwe and Mururu sectors. We did analysis by using frequency tables, cross-tabulation tables, the significant means difference tables were used in order to earn the level of respondent perception's agreements for each item, and correlation analysis was used in order to know the degree of significant relationships between two variables, and Regression analysis for testing the effects of MFI's on socio-economic development in three sectors mentioned above.

#### **Profile of Respondents**

Respondents in this study were described according to gender, age, education level, occupation, Residence, the annual income saved in MFI's and the number of years of partnership with MFI's. In each case, respondents were asked through a closed ended questionnaire, to provide their respective profile information, to enable the researcher to classify and compare them accordingly. Their responses were analyzed using frequencies and percentage distributions as summarized in table below:

**Table 4.1: Profile of respondents**

**n= 378**

<b>Category</b>	<b>Frequency</b>	<b>Percent</b>
<b>Gender</b>		
Male	241	63.8
Female	137	36.2
<b>Total</b>	<b>378</b>	<b>100</b>
<b>Age</b>		
16-20 years	26	6.9
20-25 years	31	8.2
26-29 years	81	21.4
30-35 years	89	23.5
36-39 years	122	32.3
40 years and above	29	7.7
<b>Total</b>	<b>378</b>	<b>100</b>
<b>Marital status</b>		
Single	59	15.6
Married	291	77
Divorced/Separated	12	3.2
Widowed	16	4.2
<b>Total</b>	<b>378</b>	<b>100</b>
<b>Education level</b>		
Doesn't know to reading and writing	48	12.7
Primary level	149	39.4
Diploma	39	10.3
Degree	5	1.3
Masters	1	0.3
Vocation training Certificate	136	36
<b>Total</b>	<b>378</b>	<b>100</b>
<b>Occupation</b>		
Farmers	171	45.2
Teacher	14	3.7
Local Government Workers	5	1.3
Businessman	178	47.1
Non-Government Organization Workers	3	0.8
Bank worker (MFI's Managers)	7	1.9
<b>Total</b>	<b>378</b>	<b>100</b>

<b>Years of partnership with NGO's</b>		
Less than 1 year	77	20.4
Between 1 and 2 years	84	22.2
Between 3 and 4 years	199	52.6
Between 5 and 6 years	7	1.9
Between 6 and 7 years	11	2.9
<b>Total</b>	<b>378</b>	<b>100</b>
<b>Annual part of income saved in MFI'S</b>		
Below 100 USD	138	36.5
Between 100-200 USD	157	41.5
Between 200-300 USD	57	15.1
Between 300-400 USD	16	4.2
Between 400-500 USD	4	1.1
Above 500 USD	6	1.6
<b>Total</b>	<b>378</b>	<b>100</b>
<b>MFI'S Location and their clients</b>		
Umurenge SACCO (Kamembe)	43	11.4
Umurenge SACCO (Gihundwe)	82	21.7
Umurenge SACCO( Mururu)	81	21.4
MFI Inkingi (Mururu)	48	12.7
MFI Agaseke ( Mururu)	37	9.8
FMI Urwego( Kamembe)	59	15.3
MFI Amasezerano( Kamenbe)	29	7.7
<b>Total</b>	<b>378</b>	<b>100</b>

**Source: Primary Data, 2012**

Table 4.1 shows that most respondents in the study sample were male (63.8%), indicating that the population under study is dominated by male as compared to female (36.2%) Regarding education level, results indicate that respondents of Rusizi district under study are relatively educated. Primary level represents (39.4%), diploma holders were (10.3%) and Degree holders were (1.3%), Masters holders represent (0.3%), the people who never attended school represent (12.7.5%) and others including vocation training certificate holders (carpentry, tailoring...) represent (36%).

About respondents' age group, majority of them were between 36 - 39 years represent (32.3%), the interval age of 30-35 years represents (23.5%), respondents of 26-29 years represent (21.4%), 20-25 years represent (8.2%), 16-20 years represent (6.9%) and 40 years and above represent (7.7%). This is an indication that many people under study are adult people who are able to earn income and able to save its partial in MFI's.

According to the marital status most respondents were Married people who represent (77.0%), and single who represent (15.6%), divorced/separated represent (3.2%) and widower people who represent (4.2%). This is an indication of confirming that MFI's customers in Rusizi District more of them are married people.

About respondent's occupation group, the majority of the respondents were businessman who represent (47.1%), Farmers represent (45.2%), teachers represent (3.7%), Government workers represent (1.3%), NGO's workers represent (0.3%) and The MFI's managers represent (1.9%). This indicated that Businessman and farmers are important customers of MFI'S in Rusizi district specifically in Mururu sector where we found many Tea and Coffee's famers, and Kamembe sector where we found many commercial activities and trade centre of Kamembe people(Rwanda) and Bukavu province people of the Democratic Republic of Congo (DRC). In this case, MFI's managers helped researcher to get information about interaction between Socio-economic development and MFI's activities in Rusizi District.

Regarding to time in which respondent is MFIs clients, result of research show that many respondent are clients of MFI's at 3 to 4 years at level of 52.6%, between 1 to 2 years represent 22.2%, below year represent 20.4% between 6 to 7 years represent 2.9% and 5 to 6 years represent 1.9%. These indicate that MFI's acts have experienced in collaboration with people of Rusizi District.

With regarding to annual part income saved by people of Kamembe, Gihundwe and Mururu, results of research shows that many respondent at the rate of 41.5% saved their part of income which is equal to 100-200 USD in MFI's, who saved: below

100USD represent 36.5%, 200-300 USD represent 15.1%,300-400 USD represent 4.2%, above 500 USD represent 1.6% and between 400-500 USD represent 1.1%.This results indicated that people of Kamembe, Gihundwe and Mururu have an advanced knowledge of collaboration with MFI's and culture of saving in which sensitized by the Rwandan Government to their citizens.

About Microfinance locations and their clients, the research results in table above shows that Mururu and Kamembe sectors are the main location of Microfinance because of their strategic area of commercial and trade center. In Kamembe we found many clients of Urwego MFI at rate of 15.3%, Amasezerano MFI at rate of 7.7% and Umurenge SACCO at level of 11.4%, otherwise Mururu sector has 3 microfinance institutions, because in this sector there are many famers of Tea and Coffee, the results of research indicated that in this sector Umurenge SACCO has the clients at rate of 21.4%; Inkingi MFI has clients at 12.7% and Agaseke MFI at 9.8%

The third sector is Gihundwe sector where we found Umurenge SACCO only and their clients at level of 21.7%.

These results indicated that Microfinance institution has an impact on Socio-economic development due to their collaboration with citizens of these three sectors mentioned above.

### **Cross-Tabulation Analysis**

We use cross-tabulation tables in order to found linkage between sub-variables and to get meaningful of results by comparison of the areas under study (Kamembe, Mururu and Gihundwe) these is done by looking occupation of the respondent and their annual part of income saved in MFI's.

**Table 4.2.Occupation of the Respondent \*Residence of the respondent cross tabulation**

**n = 378**

			Residence of the respondent			Total
			Kamembe	Gihundwe	Mururu	
Occupation of the respondent	Famers	Count	32	43	96	171
		% of Total	8.5%	11.4%	25.4%	45.2%
	Teacher	Count	9	1	4	14
		% of Total	2.4%	.3%	1.1%	3.7%
	Government worker	Count	1	0	4	5
		% of Total	.3%	.0%	1.1%	1.3%
	Businessman	Count	80	40	58	178
		% of Total	21.2%	10.6%	15.3%	47.1%
	Non-governmental Organization worker	Count	1	0	2	3
		% of Total	.3%	.0%	.5%	.8%
	Bank Worker ( MFI's managers)	Count	5	1	1	7
		% of Total	1.3%	.3%	.3%	1.9%
Total	Count	128	85	165	378	
	% of Total	33.9%	22.5%	43.7%	100.0%	

**Source: Primary data, 2012**

By referring to the main occupation observed to this results of research, there are occupation of Business (Businessman) and Agriculture (Famers), The table above shows that Kamembe is the first one of the area of Business at rate of 21.2% by

compare to Mururu and Gihundwe respectively of 15.3% and 10.6%.as we said on interpretation above Kamembe is the commercial center of Rusizi District (Rwanda) and Bukavu (DRC) that is why there are many people who do the Business.

With regarding to the occupation of Agriculture, Mururu sector comes over at the rate of 25.4%, Gihundwe at 11.4 and Kamembe at 8.5%. These indicated that Mururu is the sector where agriculture is applied. The people of Mururu sector possess Coffee and tea plantations and some of them are agriculture workers of tea industry, those crops help them to earn income and its partial is saved in MFI's.

**Table 4.3 Annual part of income saved in MFI's \* Residence of the respondent**  
**Cross tabulation**

**n = 378**

			Residence of the respondent			Total
			Kamembe	Gihundwe	Mururu	
Annual part of income saved in MFI's	Below 100 USD	Count	23	24	91	138
		% of Total	6.1%	6.3%	24.1%	36.5%
	Between 100-200 USD	Count	56	43	58	157
		% of Total	14.8%	11.4%	15.3%	41.5%
	Between 200-300 USD	Count	32	17	8	57
		% of Total	8.5%	4.5%	2.1%	15.1%
	Between 300-400 USD	Count	10	1	5	16
		% of Total	2.6%	.3%	1.3%	4.2%
	Between 400-500 USD	Count	4	0	0	4
		% of Total	1.1%	.0%	.0%	1.1%
	above 500 USD	Count	3	0	3	6
		% of Total	.8%	.0%	.8%	1.6%
Total	Count	128	85	165	378	
	% of Total	33.9%	22.5%	43.7%	100.0%	

**Source: Primary data, 2012**



The table above indicates that the people of Mururu, Kamembe and Gihundwe sectors saved the part of their income in Microfinance.

The people of Mururu sector are the first one who saved their money in Microfinance at these ranges: Below 100 USD represent 24.1%, 100-200 USD represent 15.3%. This first place in these ranges due to the agriculture activities done in this sector and the number of Microfinance located there.

The high range of money saving are found in Kamembe sector by compare to Mururu and Gihundwe sector. Where we found that in Kamembe the range interval of money saved in MFI's are in the following levels: Between 200-300 USD covers 8.5%, 300-400 USD covers 2.6%, 400-500 USD at level of 1.1% and above 500USD at the rate of 0.8%. These high range of saving due to the business and other activities done in Kamembe city and the number of MFI's located there.

### **Description of the Level of the Contribution of Microfinance Institutions on Socio Economic Development in Rusizi District**

The independent variable in this study was Microfinance institutions acts, and the dependent variable is socio-economic Development in Rusizi District-Rwanda. The level of these variables was measured using five questions related to the availability of MFI's and its working programs ,six questions related to the MFI's portfolios and their interventions in social activities and three questions related to the capacity of MFI's and twelve questions related to the contribution of microfinance on socioeconomic Development in the community of Rusizi District. These questions were asked to MFIs workers, MFI's clients (community) and Local leaders at Sector level. All items were Likert scaled using four points ranging between 1= strongly disagree, 2= Disagree, 3=Agree, 4= strongly agree. The main objective of this study was set to determine the level of the contribution of MFI's on socio-economic development in Rusizi District/Rwanda. in this case respondents were required to indicate the extent to which they agree with each of the items or statements by ticking the number that best

describes their perceptions. Their responses were analyzed and described using means as summarized in table below:

**Table 4.4. The level of the availability of MFI's and their working programs in Rusizi District/Rwanda**

**n = 378**

Items	Mean	Std. Deviation	Interpretation	Rank
1. There are many MFIs operating in RUSIZI District	2.0397	.98853	Moderate	5
2. The interventions/portfolios of MFIs in RUSIZI are genuine and likely to bring about positive change	3.1958	.97925	High	2
3. The MFIs conduct a thorough needs assessment before implementing its activities in the district	2.0899	.98118	Moderate	4
4. The MFIs involve partners in community needs assessment	2.1349	.98277	Moderate	3
5. MFIs are cooperating with the government	3.2698	.75776	Very High	1
<b>Index average mean</b>	<b>2.54602</b>			

**Source: Primary data, 2012**

Results in table above indicate that there are different levels on the questions related to the availability of MFI's and their working program in Rusizi District. For example, respondents (bank workers) rated that the interventions/portfolios of MFI's in Rusizi District are genuine and likely to bring about positive change to be highly on the level of (mean=3.1958), equivalent to agree, and were agreed that MFIs are

cooperating with the government at very high level of (mean=3.2698), the MFI' conduct a thorough needs assessment before implementing a program or a project in the district at moderate level of mean=2.0899, and The MFIs involve partners in community needs assessment at moderate level mean of (2.1349). To get a summary picture on how MFI's workers and Local Leaders rated the availability of MF's and their working programme in Rusizi District, the index of average mean was computed where results on table above show that the availability of MF's and their working program in Rusizi District/Rwanda is at Moderate level of **(mean=2.54602)**. These results indicated that in Rusizi district there are a medium number of MFI's and medium level of collaboration between Local government (District level) and MFI's program.

**Table 4.5.The level of the MFI's portfolios/MFI's intervention in social economic activities in Rusizi District/Rwanda**

**n = 378**

<b>Items</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Interpretation</b>	<b>Rank</b>
1.The MFIs intervene in Business development	(2.1561 )	.99307	Moderate	3
2.MFIs intervene in education	3.2249	.97159	High	2
3.MFIs intervene in food security and livelihood	2.1111	.98978	Moderate	5
4.MFIs intervene in economic empowerment	3.3016	.75626	Very High	1
5.MFIs in Rusizi District intervene in gender promotion/gender balance	2.0820	.97510	Moderate	6
6.MFIs in Rusizi district act in Agriculture	2.1561	.99307	Moderate	4
<b>Index Average mean</b>	<b>2.5052</b>			

**Source: Primary data, 2012**

Results in table above indicate that there are different levels on the questions related to Portfolios of MFI's and their social intervention activities in Rusizi District. For example, respondents (Local leaders and the community) rated that MFIs intervene in economic empowerment to be very highly on the level of (mean=3.3016), equivalent to strongly agree, and were agreed that MFIs intervene in education at high level of (mean=3.2249), The MFIs intervene in Business development and MFIs in Rusizi District intervene in gender promotion/gender balance in the district at moderate level of mean=2.0899 and mean=2.0820. To get a summary picture on how community and Local Leaders rated the MFI'S portfolios and MF's interventions in social activities in Rusizi District, the index of average mean was computed where results on table above show that the level of MFI'S portfolios and MF's interventions in social activities in Rusizi District is at Moderate level of **(mean=2.5052)**. These results indicated that Microfinance institutions have a good impact on economic development and welfare of people in Rusizi District.

**Table 4.6.The level of Microfinance Capacity in Rusizi District**

**n = 378**

Items	Mean	Std. Deviation	Interpretation	Rank
1.The MFIs in Rusizi district possess a credible funding source to implement their activities	3.1534	1.02113	High	2
2.MFIs in Rusizi district possess professional committed staff to implement their activities	3.1772	.99485	High	1
3.The MFIs in Rusizi district possess enough and adequate equipments to implement their activities	2.1508	.98853	Moderate	3
<b>Index average mean</b>	<b>2.8271</b>			

**Source: Primary Data, 2012**

Results in table above indicate that there are different levels on the questions related to Capacity of Microfinance Institutions in Rusizi District. For example, respondents (MFI'S Managers) rated that MFIs in Rusizi district possess professional committed staff to implement their activities to be very highly on the level of (mean=3.1772), equivalent to agree, and were agreed that The MFIs in Rusizi district possess a credible funding source to implement their activities at high level of (mean=3.1534), The MFIs in Rusizi district possess enough and adequate equipments to implement their activities at moderate level of mean=2.1508). To get a summary picture on how FMI's workers rated the MFI'S capacity to implement their activities and Project, the index of average mean was computed where results on table above show that the level of MFI'S capacity is at high level of **(mean=2.8271)**. These results indicated that Microfinance institutions have a high capacity to implement their activities through their sufficient funds, equipments and their professional commitment of the staff.

**Table 4.7 Level of the contribution of MFIs on socioeconomic Development in the community of Rusizi District/Rwanda**

**n = 378**

Items	Mean	Std. Deviation	Interpretation	Rank
1. The services of MFIs are improving the community's welfare in Rusizi district.	2.1958	1.11121	Moderate	10
2. MFIs are contributing to meeting of community felt needs in the district.	2.9286	.95116	High	5
3. MFIs contribute to the affordability of the school fees of the children.	2.9577	.92321	High	2

4. With MFIs the culture of saving and credit among the community members is enhanced	2.9524	.92295	High	3
5. With MFIs services the community members are able to meet medical expenses	2.9471	.92266	High	4
6. Due to MFIs services the families are food secure in district.	2.5026	.99134	moderate	6
7. Due to MFIs community members in Rusizi district has access and use potable water	2.4656	1.03012	Moderate	8
8. Due to MFIs services, the level of illiteracy is reducing in the community.	1.6878	.83231	Low	12
9. Due to MFIs services, the number of children dropping out school is reducing in the community.	3.1217	.80845	High	1
10. The beneficiaries of MFIs have got more livestock than the non beneficiaries	2.3968	.98594	Moderate	9
11. The beneficiaries of MFIs have got better houses than the non beneficiaries	2.4762	1.10255	Moderate	7
12. There is a big number of challenges people are facing with microfinance institutions	1.7460	.86122	Low	11
<b>Index average mean</b>	<b>2.5315</b>			

**Source: Primary data, 2012**

Results in table above indicate that there are different levels on the questions related to contribution of MFIs on Socioeconomic development in the community of Rusizi District. For example, respondents (Local leaders and the community) rated that Due to MFIs services, the number of children dropping out school is reducing in the

community to be very highly on the level of (mean=3.1217), equivalent to agree, and were agreed that With MFIs the culture of saving and credit among the community members is enhanced at high level of (mean=2.9524), With MFIs services the community members are able to meet medical expenses at high level of mean=2.9471. To get a summary picture on how community and Local Leaders rated the MFI'S contribution on socioeconomic activities in the community of Rusizi District, the index of average mean was computed where results on table above show that the level of MFIs contribution on socioeconomic development in the community of Rusizi District is at high level of **(mean=2.5315)**. These results indicated that Microfinance institutions have a good impact on socioeconomic development in the community of Rusizi District, especially in health, education, improvement of welfare of population and poverty reduction in general.

### Correlation Analysis

Correlation refers to any of a broad class of statistical relationships involving dependence. In this part, we wanted to test relationships between MFs acts and Socio-economic Development in Rusizi District.

**Table 4.8 Relationship between MFIs acts and Socioeconomic Development in Rusizi District**

**n = 378**

<b>Variables Correlated</b>	<b>r-value</b>	<b>Sig.value</b>	<b>Interpretation</b>	<b>Decision on Ho</b>
MFIs acts Vs Socio-economic Development	0.155	0.002	Significant correlation	Accepted

**Source: primary data, 2012**

Table indicates that MFIS's acts and Socio-economic development, their correlation was positive correlation of ( $r=0.155$ , sign. value= $0.002$ ). The test statistics indicated that the null hypothesis is accepted because MFI's acts is significantly correlated with Socio-economic Development and their sign. Value  $0.002$  is less than  $0.05$ . This correlation is not strong because in Rusizi district there are other factors which determine the level of socioeconomic development like Government policies on poverty reduction and life condition improvement, private sector programs, NGO's programs etc.

### Regression analysis

Regression analysis is a statistical tool for the investigation of relationships between variables. Usually, the investigator seeks to ascertain the causal effect of one variable upon another. In our study we wanted to test the effect applied by independent variable of MFIs acts on dependent variable of Socio-economic development in Rusizi District.

**Table 4.9 Regression Analysis of MFIs acts with Socio-economic development in Rusizi District**

**n = 378**

<b>Variables Correlated</b>	<b>Adjusted <math>r^2</math></b>	<b>F-value</b>	<b>Sig.</b>	<b>Interpretation</b>	<b>Decision on <math>H_0</math></b>
MFIs acts Vs Socio-economic development	0.021	9.276	0.002	Significant effect	Accepted
<b>Coefficients</b>	<b>Beta</b>	<b>t-value</b>	<b>Sig.</b>	<b>Interpretation</b>	<b>Decision on <math>H_0</math></b>
(Constant)	--	20.654	0.000	Significant effect	Accepted for $H_0$



MFIs acts on Socio-economic development	0.155	3.046	0.002	Significant effect	Accepted for $H_0$
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**Source: Primary data, 2012**

According to the regression analysis results in table above, the variables included in the model account for 2.1 % variations in dependent variable of socio-economic development in Rusizi district, indicated adjusted r-square of 0.021. Results revealed that the independent variable of MFIs acts included in the model significantly affect the dependent variable (Socio-economic development), ( $F=3.046$ ,  $\text{sig.value}=0.002$ ). These results lead to the conclusion that contribution of MFs has significant effects on the level of Socio-economic development in Rusizi District. The coefficients table indicates that the variable of MFIs acts has significant effect on Socio-economic development due to its contribution in the model: ( $\beta_1=0.155$ ,  $\text{sig.} = 0.002$ ). After getting these results researcher concludes that Null hypothesis is accepted because sign. Value (0.002) in the model is less than 0.05. Therefore our Data provide enough evidence to accept that MFIs has a significance relationship and a significance effect on Socio-economic development, meaning that MFIs has a great positive impact on Socioeconomic Development in Rusizi district especially in Kamembe, Mururu and Gihundwe sectors where research took place.

## CHAPTER FIVE

### FINDINGS, CONCLUSIONS AND RECOMMENDATION

#### Findings

The first objective of this study was to determine the profile of the respondent, therefore the results indicated that the respondents who earned more annual amount of income were responsible to save their money in MFI's, these amount of income has the source in different respondent's occupations (farms, business, etc. ref. table of the profile of the respondent and cross-tab tables).

The second objective was to find out whether existing microfinance contributes to enhancing business, researcher found that due to the capacity and services delivery by MFI's to their clients, table of capacity sub-variable shown that the level of MFI'S capacity is at high level of (**mean=2.8271**). These results indicated that Microfinance institutions have a high capacity to implement their activities through their sufficient funds, equipments and their professional commitment of the staff and customer business satisfaction. Other thing the cross tabulation which is processed in above indicated that the businessman of Rusizi save and request the bank loan in MFI'S located in this area, these loan from in MFI's were used in business activities.

The third objective was to identify the role of MFI's on socioeconomic development in the population under study, the results of table concerned to sub-variable of socio-economic development, researcher known that Due to MFIs services, the number of children dropping out school is reducing in the community to be very highly on the level of (mean=3.1217). Then, researcher tested Hypothesis in order to take the conclusion of rejection of null hypothesis or to agree it. The hypothesis of this research was: "There is a significance relationship between microfinance Institutions and socioeconomic Development, and there is a significance effect of Microfinance

institutions to the socioeconomic development in Rusizi District". This hypothesis was tested.

Based on tables, 4.8, and 4.9, we found that, there is a significance relationship between levels of the contribution of MFIs acts and the level of socio-economic development in Rusizi District and also there is the effect of MFIs to the socioeconomic development. These results indicate that MFIs in Rusizi District has a high impact on improvement of life condition of these people in different sectors like health sector, education sector, saving culture, poverty reduction as confirmed by the results found in the tables 4.2 to 4.6.

Other thing discovered in this research, based on tables 4.2, we found that MFIs concentrated their activities where they found many clients due to their main occupation like businessman and Famers. In this case Kamembe sector has the high percentages of microfinance activities due to its strategic area of commerce centre of Rusizi people/Rwanda and Bukavu people of RDC, while Mururu sector has also high number of microfinance institution activities due to their people famers who earned income for saving; this income is from tea and coffee plantation located in that sector.

Based on table 4.6. We found that Microfinance located in Rusizi district have a capacity to accomplish their objectives due to their credible funds, staff commitment and professionals and an adequate equipment. That is why MFIs acts match more with socioeconomic development satisfaction of their clients.

## **Conclusion**

The purpose of this study was to determine the extent, to which the MFIs contributes on Socio-economic Development in Rusizi District, and we were interested to test the relationships and effects come into sight on these variables. The research findings revealed that there was effects and relationships between these variables mentioned. Moreover findings reveal that MFIs contributes more in Health sector and education sector, poverty reduction etc.

## **Suggestions**

The researcher suggest that MFI's studied should put much effort in the department of marketing by developping a website where people find information about the institutions and display their achievement on the website dashboard for service awareness purpose.

Financial services are embraced as a means of increasing economic growth, promotion of self dependency, ensuring competitive markets, helping the unemployed to generate additional jobs for themselves and others, countering poverty, drawing individuals out of informal economic activity. Therefore, MFI's are suggested to focus on above mentioned items and above all work closely with small earners, small and medium enterprises rather than working with big enterprises.

### **The Government of Rwanda (GoR)**

The government should give a hand in mobilizing graduates citizens to join microfinance institutions services and business activities; it will be the way of promoting a good philosophy that business is not done by people without high academic level.

The government of Rwanda can create a guarantee fund which can support graduates peoples to access to the financial service (loans);

### **Further researchers**

In the context of academic need, next researches will be focused on:

The contribution of the East-African Community States to enable MFIs in economic development involvement of countries;

Expending Job creation from MFIs in Rwanda.

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## APPENDIX I: TRANSMITTAL LETTER



**KAMPALA  
INTERNATIONAL  
UNIVERSITY**

Ggaba Road - Kansanga  
P.O. Box 20000, Kampala, Uganda  
Tel: +256 - 414 - 266813 / +256 - 772 - 322563  
Fax: +256 - 414 - 501 974  
E-mail: admin@kiu.ac.ug  
Website: www.kiu.ac.ug

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**OFFICE OF THE HEAD OF DEPARTMENT, ECONOMICS AND  
MANAGEMENT SCIENCES  
COLLEGE OF HIGHER DEGREES AND RESEARCH (CHDR)**

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Date: 09<sup>th</sup> July, 2012

**RE: REQUEST OF UWITONZE ALFRED SAFI MBA/43737/92/DF  
TO CONDUCT RESEARCH IN YOUR ORGANIZATION**

The above mentioned is a bonafide student of Kampala International University pursuing Masters of Business Administration.

He is currently conducting a research entitled " **The Micro Finance Institutions and Rural Social Economic Development in Rusizi District, Rwanda.**"

Your organization has been identified as a valuable source of information pertaining to his research project. The purpose of this letter is to request you to avail him with the pertinent information he may need.

Any information shared with him from your organization shall be treated with utmost confidentiality.

Any assistance rendered to him will be highly appreciated.

Yours truly,

*Mr. Malinga Ramadhan*  
**Mr. Malinga Ramadhan,  
Head of Department,  
Economics and Management Sciences, (CHDR)**

**NOTED BY:**

*Dr. Sofia Sol T. Gaiter*  
**Dr. Sofia Sol T. Gaiter  
Principal-CHDR**

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*"Exploring the Heights"*

## **APPENDIX II: AUTHORIZATION FROM RUSIZI DISTRICT TO CONDUCT RESEARCH**

REPUBLIC OF RWANDA



WESTERN PROVINCE

RUSIZI DISTRICT

E-mail : [rusizidistrict@yahoo.fr](mailto:rusizidistrict@yahoo.fr)

### **RECOMMANDATION TO CONDUCT A RESEARCH**

Reference to letter from UWITONZE Alfred SAFI, a student in Kampala International University, requesting for permission to carry out a research in Rusizi District whose title is "THE MICROFINANCE INSTITUTIONS AND RURAL SOCIO ECONOMIC DEVELOPMENT IN RUSIZI DISTRICT, RWANDA"; the District authority, do hereby, allow the named student to conduct this research. It's in that perspective that we recommend whoever concerned to kindly facilitate him.

Done at Rusizi on July 19<sup>th</sup> 2012

A handwritten signature in dark ink, appearing to read 'Nzeyimana Oscar'.

NZEYIMANA Oscar

Mayor of Rusizi District



### APPENDIX III: RESEARCH INSTRUMENT

Dear Sir/Madam,

I am a student of Master of Business Administration of Kampala International University carrying out a study on "*Microfinance Institutions and Rural Socio economic Development in Rusizi District, Rwanda*". I wish to inform you that you have been selected to participate in this research. This questionnaire is purely for academic reasons and nothing else. You are kindly requested to respond to these questions to the best of your knowledge. Your responses cannot even be tracked since the questionnaire is anonymous. Your assistance will be highly appreciated. I request you to give answers by ticking in the boxes provided.

Yours truly,

.....

**Alfred SAFI UWITONZE**

## FACE SHEET

Code N° ----- Date Received by Respondent.....

### PART A: DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENT

RESIDENCE: KAMBEMBE (.....) GIHUNDWE(.....) MURURU(.....)

GENDER (please Tick)

----- (1) Male

----- (2) Female

AGE

.....16-20

.....20-25

.....26-29

.....30-35

.....36-39

.....40 and above

LEVEL OF EDUCATION

Primary-----

Diploma -----

Degree-----

Masters-----

PhD-----

TVT (Technical and Vocational Training school)-----

OCCUPATION (Job)

Farmers-----

Teachers-----

Government workers-----

Non Government workers-----

Business man-----

INCOME EARNED

Below 100 \$-----

100-200\$-----

200-300\$-----

400-500\$-----

Above 500\$-----

Years of partnership with MFI(s)

Under a year \_\_\_\_\_

(1-2) \_\_\_\_\_

### **Questionnaire to determine portfolios/ overall area of action**

- .....1. The MFIs intervene in Business development
- .....2. MFIs intervene in education
- .....3. MFIs intervene in food security and livelihood
- .....4. MFIs intervene in economic empowerment
- .....5. MFIs in Rusizi District intervene in gender promotion/gender balance
- .....6. MFIs in Rusizi district act in Agriculture

### **Questionnaire to determine the capacity of the MFIs to deliver services in the District**

- .....1.The MFIs in Rusizi district possess a credible funding source to implement their activities
- .....2.The MFIs in Rusizi district possess professional committed staff to implement their activities
- .....3.The MFIs in Rusizi district possess enough and adequate equipments to implement their activities

### **Questionnaire to determine the socio-economic development**

- .....1.The services of MFIs are improving the community's welfare in Rusizi district.
- .....2. MFIs are contributing to meeting of community felt needs in the district.

- .....3. MFIs contribute to the affordability of the school fees of the children.
- .....4. With MFIs the culture of saving and credit among the community members is enhanced.
- .....5. With MFIs services the community members are able to meet medical expenses
- .....6. Due to MFIs services the families are food secure in district.
- .....7. Due to MFIs community members in Rusizi district has access and use potable water.
- .....8. Due to MFIs services, the level of illiteracy is reducing in the community.
- .....9. Due to MFIs services, the number of children dropping out school is reducing in the community.
- .....10. The beneficiaries of MFIs have got more livestock than the non beneficiaries
- .....11. The beneficiaries of MFIs have got better houses than the non beneficiaries
- .....12. There is a big number of challenges people are facing with microfinance institutions



## **APPENDIX IV : RESEARCHER'S CURRICULUM VITAE**

### **PERSONAL PROFILE**

SURNAME: UWITONZE

FIRST NAME: Alfred SAFI

DATE OF BIRTH: 15 May 1979

NATIONALITY: Rwandese

MARITAL STATUS: Married

### **EDUCATION**

2010 onwards: Master's Candidate in MBA Management at Kampala International University

2001-2006: University studies (Higher Institute of Agriculture and Animal Husbandry of Rwanda) sanctioned by a bachelor's degree in Agricultural Engineering: Agriculture, option

### **PRACTICAL EXPERIENCES (Before, During Higher Education and after)**

Year	Supervisor	Kind of Work done	Mains Responsibilities in charge.	Time of Work	Place
2008-2009	District Council President	President of the Economic Commission in District Council	Supervise all Economic activities in District (Agriculture, Infrastructures, Tourism	3 years mandate	Nyamasheke District

Year	Supervisor	Kind of Work done	Mains Responsibilities in charge.	Time of Work	Place
2006-2009	NYC(National Youth Council)	Youth Coordinator	<p>Representing youth in District Council</p> <p>Coordination of all youth activities(youth cooperatives and organizations)</p> <p>Sensitization of young people to promote income generating activities in Nyamasheke District</p> <p>Sensitization of youth(educated and non educated youth) on HIV prevention and VCT in Nyamasheke District</p> <p>Sensitization of youth to promote small business development</p>	5 years mandate	Nyamasheke District

Year	Supervisor	Kind of Work done	Mains Responsibilities in charge.	Time of Work	Place
2006	ISAR	Work of Memory : Study on Sweet Potatoes parasites	Documentation  Field work,...	2 months	Nyamasheke District(Ntendezi Station)

## PROFESSIONAL EMPLOYMENT

Period	Employer	Job Title/Job Qualification	Mains Responsibility	Affectation
2005-2011	MIDIMAR (Ministry of Disaster Management and Refugies)	Coordinator of Nyagatare Transit Centre (NTC).	<p>Coordination of all activities which is done in NTC</p> <p>Supervise the Partner's activities who operate in NTC.</p> <p>Supervise all Staff of CNR operating in the same centre.</p> <p>Follow up all activities relatives to refugee and returnees received in NTC.</p> <p>Follow up of all activities implemented by UNHCR, AHA, WFP</p> <p>Others Activities given by Employer, and Reporting.</p>	RUSIZI District
2007-2008	NISR(National Institute of Statistics of Rwanda)	Surveyor(Enqueteur)	Surveyor in National Agriculture survey done within the period of October 2007 to September 2008	Nkombo sector/Rusizi district

