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Effect of Microfinance Loan on Poverty Reduction in Rwanda

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Abstract- The purpose of this study was to investigate the effect of microfinance loan on poverty reduction in Rwanda. The study sought to identify the achievements of microfinance loans to the individuals, explore the perceptions of microfinance beneficiaries on poverty reduction and determine the effect of microfinance loans on the economic growth. The target population for this study was 6228 persons, which included employees and clients of COPEDU PLC, Remera Branch. The study adopted descriptive research design to collect data from the selected sample size. The primary data was collected using questionnaires that were randomly distributed to the sample population. The data collected was analyzed using the Statistical Package for Social Sciences (SPSS) software to determine the mean, mode, standard deviation and inferential statistics related to the study. The findings from the study indicate that microfinance loans have a significant effect on poverty reduction. The study found that microfinance loans empower the poor and enable them to overcome the challenges that they face. The provision of microfinance loans has led to start-ups, growth and expansion of micro and small businesses resulting in asset building, job creation, poverty reduction and improved standard of living.

Keywords: *poverty reduction, microfinance, COPEDU PLC, grace period.*

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Effect of Microfinance Loan on Poverty Reduction in Rwanda

Dolca Ingabire [α] & Dr. Henry Jefferson Ogoi [σ]

Abstract- The purpose of this study was to investigate the effect of microfinance loan on poverty reduction in Rwanda. The study sought to identify the achievements of microfinance loans to the individuals, explore the perceptions of microfinance beneficiaries on poverty reduction and determine the effect of microfinance loans on the economic growth. The target population for this study was 6228 persons, which included employees and clients of COPEDU PLC, Remera Branch. The study adopted descriptive research design to collect data from the selected sample size. The primary data was collected using questionnaires that were randomly distributed to the sample population. The data collected was analyzed using the Statistical Package for Social Sciences (SPSS) software to determine the mean, mode, standard deviation and inferential statistics related to the study. The findings from the study indicate that microfinance loans have a significant effect on poverty reduction. The study found that microfinance loans empower the poor and enable them to overcome the challenges that they face. The provision of microfinance loans has led to start-ups, growth and expansion of micro and small businesses resulting in asset building, job creation, poverty reduction and improved standard of living. The study concludes that provision of microfinance loans have a significant effect on poverty reduction in Rwanda. This study recommends that the microfinance management review the loan processing requirements to faciliate the application process and induce more people to take the loans. The study also recommends that management consider providing a grace period to enable the borrowers to make proper arrangement on how to repay the loans.

Keywords: poverty reduction, microfinance, COPEDU PLC, grace period.

I. Introduction

Poverty has become a major concern for both the developed and developing countries. Based on the poverty line, people in each country can be broadly divided into categories, namely, the poor and the non- poor. The non-poor live above the poverty line while the poor live below the poverty line. Balkenhol (2007) found that microfinance schemes have been increasing significantly throughout the world. Despite the tremendous increase of microfinance schemes, the effect on the borrowers and household welfare remains widely contested.

Rwanda is a landlocked country with limited natural resources. Rwanda has a population of about 12.5 millions, of which 87 per cent of live in the rural areas. The current population density of Rwanda stands at 416 people per square km. In the year 2012, Rwanda had a GDP per capita of US $ 644. Poverty is widespread with a life expectancy of 63.49 years (MINECOFIN 2012).

The Poverty Reduction Unit (PRU) of UNDP Rwanda is attempting to lessen poverty and quicken advance towards the Millennium Development Goals (MDGs) by supporting star poor monetary development and comprehensive market improvement in Rwanda. UNDP Rwanda's strategy on Poverty Reduction seeks to furnish the low-income individuals with the tools and assets to lift themselves out of destitution through private segment activities at the national and district levels. The exercise intends to give low income people access to the business sector, merchandise and other ventures to empower themselves and reduce poverty to minimum.

Providing access to credit will enable the poor to start-up businesses resulting in poverty reduction and speedy economic growth (Robinson, 2002). Many African countries are wallowing in poverty, forcing the governments to develop strategies on how to reduce poverty and accelerate economic growth. One of the approaches to eradicating poverty is the engineering of microfinance, which is considered as an effective tool of addressing the financial challenges facing the needy (Salia, 2014).

Morduch and Haley (2002) noted that it is feasible for a microfinance organization to serve the most unfortunate to enable them meet their financial obligations. Swain (2004) stated that microfinance can be utilized as an instrument for mitigation instead of as a destitution reduction strategy.

Despite the tremendous economic progress since 1994, Rwanda still remains undeveloped country based on the destitution lines. The degree of the populace in neediness declined from 39.1% in 2013/14 to 38.2% in 2016/17, while the degree living in phenomenal destitution decreased from 16.3% to 16.0% during a comparative period and certified utilization per grown-up corresponding to the neediness line (RWF 159,375 consistently) or the extraordinary neediness line (RWF 105,064). (The Fifth Integrated Household Living Conditions Survey, EICV5 (2016/17). Rwanda has acknowledged the issue of neediness as a troublesome issue and the imagined techniques for conquering it.

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To reduce poverty, the legislature of Rwanda has taken drastic measures related destitution decrease. The Government of Rwanda acknowledges that microfinance plays a crucial role in reducing poverty and improving the economy, resulting in destitution decrease (Destitution Trend Analysis Report (2010/11-2013/14).

The Government of Rwanda has further initiated several projects geared toward poverty reduction. Some of these initiatives are as explained below:

a) Home grown initiatives

- ✓ Community Justice (Gacaca): These are local efforts geared toward creating equity and rebuilding responsible post-destruction Rwanda.
- ✓ Mediation Committees (Abunzi): These are instruments for casual settlement of disputes and resolving of minor criminal offenses during the post genocide period.
- ✓ One cow per poor Family (Girinka): It is a Government initiated program of providing a cow to each family to ensure a healthy sustenance and reduce poverty through a consistent source of income.
- ✓ Community Works (Umuganda): This initiative is seen as a vehicle for solidarity and commitment to the advancement of the network of achieving a common goal as a country.
- ✓ Ubudehe credit scheme: Provides a home grown solution to money related issues and poverty reduction among Rwandans. In 2008, the Scheme won the United Nations Public Service Award for participatory advancement in reducing destitution in Rwanda.

The Rwanda Vision 2020 as articulated in 2000 and revised in 2012, has ambitious targets for further economic and social development for the years ahead. One such target is the substantial reduction of poverty. The Government of Rwanda and its development partners are committed to making significant headway towards achieving the objectives contained in the national vision document (The Fifth Integrated Household Living Conditions Survey, EICV5, 2016-17). In 2016, the Government of Rwanda made business simpler by improving the registration procedure, sponsoring agribusiness, controlling prices and finance for 20 percent of the population (Rwanda's Economic Freedom Score, 2018).

Although, the government of Rwanda put much effort for poverty reduction, poverty remains a global problem, which needs concerted effort to address it. Of the worlds' 6 billion people, 2.8 billion people live on less than 2 US dollars a day and 1.2 billion on less than 1 US dollar a day (WDR, 2000/2001). Therefore, it is against this backdrop that this study sought to examine the effect of microfinance loan on poverty reduction in Rwanda.

II. Literature Review

Stiglitz (1990) noted that lack of guaranteeing among borrowers was the greatest challenge facing MFIs in providing credit. MFIs require the guarantor to pay the loan in case the borrower defaults. Cheston and Kuhn (2002) discovered that joint obligation brings down the liquidity danger of default to the borrower. Aryeetey (1997) contended that observing the loan requirements was the key to improving reimbursement rates. The authors also noted that small-scale money lenders have a joint obligation as the case Grameen in Bangladesh. Diane and Zeller (2001) proposed a companion weight model in which borrowers are not entirely educated about their accomplices' ability to apply or endure social endorsements. The model shows how companion weight can be utilized to alleviate default in circumstances where potential defaulters are prejudiced of authorizations.

a) Credit as a Human Right

Conventional banks are based on the principle that the more you have, the more you can get; if you have nothing you get nothing. They argue that banking is a business and thus it cannot indulge in charity for the poor. Grameen bank in Bangladesh has actually redefined this principle to; "the less you have the higher priority you get in receiving loans from Grameen". If you have nothing you get the highest priority. Yunus (1998) argued that if there is one single action which will enable the poor to overcome their poverty, then it is credit. Credit should be accepted as a human right. If financial institutions can come up with a system which allows everybody access to credit while ensuring excellent repayment, then poverty will be past tense.

b) A Critical Assessment of Microfinance as a Poverty Reduction Tool

Chowdhury and Bhuiya (2009) contended that there exists clashing suppositions regarding the degree to which microfinance has reduced poverty. The high interest rate charged by independent venture capitalists make it difficult to access credit resulting in escalation of poverty. Chowdhury and Bhuiya (2009) found that microfinance institutions have made a significant contribution in reducing poverty and improving the living standards of the people. The authors further contend that borrowers with business aptitude, enterprise capacity and training are more likely to access credit than those without such attributes. Hence, there is a need to train and equip individuals with business knowledge and skills to not only know how to run business, but also access credit to improve and grow their businesses.

III. Research Methodology

In this study, a quantitative research approach with a descriptive design was used to collect from the

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sample population. The primary data was collected using questionnaires which were randomly distributed among the respondents. The secondary data was collected using documentary review which included the Poverty Trend Analysis Report, Rwanda Economic Freedom Score and Poverty Strategy Paper to supplement the primary data. The study focused on microfinance clients who received loans between the years 2014 to 2018. The data collected was edited, coded and analyzed through the Statistical Package for Social Sciences (SPSS) software to produce the descriptive statistics such as percentages and standard deviation. The findings were reported using tables.

IV. Results

The data collected was analyzed to obtain the response from respondents using tabular representations. This study examined the effect of Microfinance loan on poverty reduction in Rwanda.

a) Classification according to age of respondent.

The following table shows how the respondents were distributed corresponding to their age.

Table 1: Age of the respondents

Age of the respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Between 18-24	6	7.9	7.9	7.9
	between 25-34	29	38.2	38.2	46.1
	Between 35-44	17	22.4	22.4	68.4
	Between 45-54	13	17.1	17.1	85.5
	Between 55-64	11	14.5	14.5	100.0
	Total	76	100.0	100.0	

Source: Research finding

The table above shows the age brackets of the respondents. The results show that 38.2% (age bracket 25-34) as the most active followed by 22.4% (age bracket 35-44) and 7.9% (age bracket 18-24) as the least active. Thus, it is evident that the level of activity can be deduced to be highest within the 25-34 years of age bracket.

b) Classification according to gender of respondents

Table 2: Gender Analysis

Response by Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	46	60.5	60.5	60.5
	Female	30	39.5	39.5	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above depicts the actual number of respondents by gender. The results show that the male respondents were more willing to give information required than the female respondents. This attribute was used to establish how microfinance loans affect the lifestyles of the respondents. This study sought to find out if the existing loan policies favor one sex over the other and how respondents feel about it. The findings indicate that 60.5% male respondents obtained microfinance loans compared to 39.5% female respondents. Qualitative data reveal that women in Rwanda were reluctant to engage in economic activities and prefer to help their husbands to own and run the business to avoid stress and risk. According to the Rwandan culture, women are expected to use their earnings in the business without having to rely on their counterparts for household needs.

Table 3: Marital Status of the Respondents.

Marital status of the respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	27	35.5	35.5	35.5
	Married	49	64.5	64.5	100.0
	Total	76	100.0	100.0	

Source: Research findings

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The table above indicates that 64.5% of the respondents were married while 35.5% were single. The higher response rate for the married respondents shows that those who are married have more financial obligations, which forces them to look for additional sources of income.

Table 4: Educational Level of Respondents.

Educational level of Respondents.					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Illiteracy	6	7.9	7.9	7.9
	Primary	18	23.7	23.7	31.6
	Professionals & secondary	45	59.2	59.2	90.8
	University	7	9.2	9.2	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above shows that 59.2% of the respondents had professional and secondary education, 9.2% had university education, 23.7% had primary education and 7.9% had no primary education. The higher percentage (59.2%) of *professional* & secondary education shows that those who did not have the chance to proceed with high education have to think of other ways to create a stable source of income.

Table 5: Analysis on How Clients Perceive Interest Rate

Respondent Perceive Annual interest rate					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	13%	19	25.0	25.0	25.0
	16%	57	75.0	75.0	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above shows that 75% of the respondents complained of high interest rates charged on the loans while 25 % said that the interest rates were fair. However, this could be attributed to the amount of the loan, repayment schedule and capacity to pay the loan(s).

Table 6: Reason for borrowing

Respondent reason for borrowing					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Business	56	73.7	73.7	73.7
	Family expenses	5	6.6	6.6	80.3
	Housing	15	19.7	19.7	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above shows that 73.7% of the respondents borrow money for business use while 26.3% borrow for other purposes such as family expenses and housing. From the statistical perspective, majority respondents borrow money with the sole purpose of investing in business to generate profit and improvement their standards of living.

Table 7: Main Source of Loan Payment

Respondent main source of loan payment					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	micro business finance	46	60.5	60.5	60.5
	Wages	30	39.5	39.5	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above indicates that 60.5% of the respondents used income generated from micro business to repay their loans while 39.5% used their wage income to pay off their loans. This is evident that majority of the respondents are in micro business while few are on payroll.

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Table 8: Delay in Loan Repayment

Response of respondents of Late in loan repayment					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	76	100.0	100.0	100.0

Source: Research findings

The table above shows that 100% of the respondents were prompt in repaying their loans, which in turn, facilitates further access to credit to expand the business.

Table 9: Monthly Savings after Taking Loan

Response of respondents of Monthly Savings after taking loan in Frw					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 20,000	15	19.7	19.7	19.7
	Between 20,000 and 40,000	15	19.7	19.7	39.5
	More than 40,000	46	60.5	60.5	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above shows that 60.5% of the respondents save more than 40,000frw while 39.5% save between 20,000frw and 40,000frw. We can deduce that those who had more savings had adequate collateral than those who had little savings.

Table 9: Types of Collateral Provided

Types of collateral provided					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Wages	20	26.3	26.3	26.3
	savings	45	59.2	59.2	85.5
	House	11	14.5	14.5	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above indicates that 59.2% of the respondents used savings as collateral for the loan while 40.8% used wages and personal house as collateral for the loan. The type of the loan sought determines the collateral to be used. For example, respondents who needed business loan had to use their savings as collateral than those who needed a loan for say household purpose.

Table 10: Obtained Group Loan

Response of respondents on obtained group loan					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	40	52.6	52.6	52.6
	No	36	47.4	47.4	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above shows that 47.4 percent of the respondents obtained individual loans while 52.6 percent obtained group loans. From the statistical perspective, group loans are more supportive than individual loans.

Table 11: Satisfaction of Loan Terms Conditions and Repayment

Satisfaction of loan terms conditions and repayment					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	52	68.4	68.4	68.4
	No	24	31.6	31.6	100.0
	Total	76	100.0	100.0	

Source: Research findings

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The table above shows that 68.4% of the respondents are satisfied with the loan requirements and repayment schedule whereas 31.6% of respondents are not satisfied with the lending requirements and repayment schedule. Those who were not satisfied with the loan requirements said that there was too much paperwork involved in accessing the credit. The respondents cited lack of grace period to allow them make proper repayment arrangements.

Table 12: Kind of business activity Loan borrowers are engaged in

Respondents Business activity engaged in					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Transport	41	53.9	53.9	53.9
	commercial activities	35	46.1	46.1	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above shows 53.9 percent of the respondents are engaged in transport services while 46.1 are engaged in commercial activities. This is evident that microfinance borrowers put their money into business to generate profit and improve their livelihood.

Table 13: Any Kind of Training Received from COPEDU PLC

Any kind of training received from COPEDU PLC					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	76	100.0	100.0	100.0

Source: Research findings

The table above indicates that 100% of the respondents who own and run businesses receive training on management, accounting, marketing and entrepreneurship through COPEDU PLC.

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