

# **FINANCIAL COOPERATIVES IN RWANDA- HISTORICAL BACKGROUND AND REGULATION**

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# FINANCIAL COOPERATIVES IN RWANDA- HISTORICAL BACKGROUND AND REGULATION

## Historical background

The microfinance<sup>1</sup> sector in Rwanda is relatively young. Although small self-help peasant organizations (such as tontines-ROSCA or ibimina) have existed for some time, the sector growth accelerated with the creation of the Rwanda Banques Populaires or Union des Banques Populaires du Rwanda (UBPR) in 1975 whose network dominates the microfinance industry today.

The history of MFIs is better described through the following time line:

- 1965 : Probable date of appearance of the first ROSCA or IBIMINA;
- 1975 : Establishment of the first Banque Populaire (BP), the Banque Populaire of NKAMBA, on August 4, 1975;
- 1986 : Banques Populaires create a Union called Union of the Banques Populaires (UBPR);
- 1994 : all MFIS stopped their activities and lost their assets during the 1994 war and genocide;
- 1995: Launching of the financial sector reform. After 1995, the Government started reforms of the financial sector aiming at creating an efficient financial system. The principal objectives of these reforms include the reinforcement of the Central Bank (BNR) legal powers of coordination and supervision of the banking structure, the introduction of new financial instruments, the liberalization of interest rates and the opening of the banking structure to foreign banks. These reforms had a considerable impact on the development of the Rwanda 's financial sector.
- 1996 : Reopening of the Banques Populaires;
- 1999: Promulgation of the banking law n° 08/99 dated June 18, 1999 assigning the responsibility for the MFIs' supervision to BNR ;
- 2002 : Creation within the Rwanda Development Bank (BRD) of the Fund for Refinancing and Development of Microfinance (FOREDEM);
- 2002/2003: Adoption by BNR of two instructions regulating the activities of microfinance in general (Instruction n° 06/2002) and the instruction specific to COOPECS (Instruction n° 05/2003);
- 2004 : First microfinance conference evaluating the level of achievement of the objectives of year 2005, declared international year of microcredit;
- 2005: a "microfinance best practices sensitization tour" was organized around the country by the Secretary of State for Planning (in the Ministry of Finance) and the Governor of the National Bank of Rwanda explaining the risks of an illegal proliferation of Coopecs and other MFIs. Were invited to these meetings all MFIs, local authorities at various levels; the National police force and all the other actors of

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<sup>1</sup> Microfinance is defined as the provision of financial services (savings, loans, and insurance) to relatively low-income clients who typically lack access to normal commercial bank products. Microfinance loans are typically granted to groups or individuals backed by non-traditional collateral.

the field. The main objectives of the tour were to present the orientations of the Government in the promotion of microfinance, to professionalize the microfinance sector, to explain the role of the supervisory authority based on the banking law n° 08/99 and to underline the importance of all microfinance actors' implication in the promotion of microfinance (local administrative authorities, the national police force, etc.);

- 2006: after the failure of a MFI unable to honor withdrawal requests from its depositors, BNR noted that several MFI had suspended deposits payment with the risk of the crisis extending to the entire microfinance sector. In June 2006, the Central Bank decided to close 9 majors MFI after the following diagnostic
  - Management of these institutions was characterized by poor corporate governance
  - These MFI had important losses caused by poor internal organization and a mismanagement of their loan portfolio which caused significant difficulties in loan recovery;
  - Loss of confidence by the population in these institutions caused massive withdrawals of deposits accompanied by a complete halt of new deposits creating severe liquidity problems;
  - Some of these MFI could not meet the licensing conditions laid down by the National Bank of Rwanda.The liquidation of these MFI totalizing deposits in excess of 3 billion RWF was managed by BNR with the help of a ministerial and technical Commission. Liquidators were named by a court of law and the Government granted an amount of 1.5 billion RWF to repay 50% of the depositors' money. Commissions were also established at districts level in order to support the liquidators in their recovery efforts. End December 2008 80% of deposits has been repaid for an amount exceeding 1 billion RWF

- 2006: Adoption by the Government, in September 2006, of the national microfinance policy and its strategy of application..;
- 2007: Creation of an MFIs Association in Rwanda (AMIR) within the framework of this microfinance policy; and promulgation of the Cooperative Law n° 50/2007 dated 18/09/2007 in revision of the Cooperative Law n° 31/1988 dated 12/10/1988;
- 2008: considering the specificity and the importance of the microfinance sector, a microfinance law was adopted by the Parliament and was gazetted in the Official Journal of the Republic of Rwanda in 2009. A new microfinance regulation has also been published during the same period.
- 2008: transformation of the Banques Populaires and their Caisse Centrale into a commercial bank, called Banque Populaire du Rwanda SA (BPR, SA);
- The National Dialogue Meeting of December 2008 proposed a integration strategy of the rural population in the financial system, it is the strategy "To create at least a COOPEC on the level of each UMURENGE throughout the country".

In 2008, the sector counts 125 MFIS including 111 COOPECS, 11 SA and 3 limited liability companies. These numbers confirms the attractiveness of the COOPECS model within the entire microfinance sector (see annex 1 microfinance data). Indeed the user-owned financial cooperatives that offer savings, credit and other financial services to their members are easy to establish (low minimum capital) and are based on a common bond, a linkage shared by savers and borrowers that can be based on a community, organizational, religious or employee affiliation. They provide members the chance to own their own financial institution and help

them create opportunities such as starting small businesses, building family homes and educating their children in a democratic manner (see Woccu technical guide on COOPECs).

Based on MFIs consolidated financial statement, total assets rose to **59 billion RWF** on 31/12/2008. On the same date, the deposits rose to **39 billion RWF** against a volume of loans of **42 billion RWF**, which shows that, the MFIs have other resources beyond deposits to finance the activities of their customers. Regarding the quality of the loan portfolio, the delinquency rate was on average **5,4%**. The solvency ratio was established with **31 %** against a legal minimum of 15%. The number of recipients of the financial services offered by MFIs is **686.952** on 31/12/2008.

The geographical coverage of MFIs is unequal. With concentration in the main towns MVK, Gitarama, Ruhengeri and Gikongoro have good coverage; Kigali Ngali, Butare, Byumba, and Cyangugu have medium coverage; and Kibungo, Gisenyi, Umutara and Kibuye have least coverage.

## **MFIs categories and related supervision**

The new microfinance law and the new regulation recognize 4 MFI categories based on its activity; the number of members and its annual turnover. The MFIs are divided into tiers as follows:

### **Category 1 - Informal MFIs (IBIMINA)**

- Mutual savings and credit activities, restricted to group members only.
- No minimum capital
- No more than 25 Members,
- Annual Turnover no more than 2.5 million RwF<sup>2</sup>
- Contribution from members only
- Same amount to be paid by members in terms of contribution
- No requirement to take on a specific legal form.
- No requirement for registration with BNR.
- No prudential regulation or supervisory oversight required
- Covered by standard usual contract/criminal law in the case of e.g. theft
- Requirement for quasi-registration with local authorities

### **Category 2 - Quasi-informal infant savings and credit cooperatives**

- Mutual savings and credit activities, restricted to group members only.
- No minimum capital
- May on-lend funds (grants or loans) from any outside organization, up to a maximum of 3 million RwF per year
- Contribution from members only
- Same amount to be paid by members in terms of contribution
- No more than 100 Members,

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<sup>2</sup> Approx 2000 RwF per member per week

- Annual Turnover no more than 20 million RwF
- No requirement to take on a specific legal form.
- Requirement for quasi-registration with Minicom which will regularly inform BNR
- Required to submit statistical reports to Minicom which will copy BNR every quarter, containing the following information:
  - Number, duration and size of loans made, broken down by gender
  - Breakdown of stated purpose of loans,
  - Details of repayments due, received and delinquent
  - Details of any provisions made for any delinquent loans
  - Total number of clients, broken down by gender
  - Any available information on the result of any micro-project funded with a loan
  - Details of any funding received from any donor organization
  - Details of any loan received from a prudentially regulated bank
- The quasi-informal infant SACCO is to keep sound written records of all savings, loans and loan repayments made.

### **Category 3 - Formal savings and credit cooperatives and other microfinance institutions**

- Savings and credit activities
- Minimum capital of 5 millions RWF for SACCOS and 300 millions RWF for the other MFIs
- May on-lend funds (grants or loans) from any outside organization
- No maximum size
- Must take the legal form of savings and credit cooperatives (registered with MINICOM) or of a Limited Responsibility Society (or Sociétés A Responsabilité Limitée, S.A.R.L) or of an Anonymous Society (or Sociétés Anonymes – S.A.)
- Requirement for registration and licensing with BNR.
- Subject to full prudential regulation, which should be as per existing BNR instructions, except that:
  - Reserve requirement will be calculated as a percentage of deposits (and not in terms of membership)
  - Minimum capital adequacy ratio should increase to 12% to be in line with recommended international guidelines (as recommended in the FSAP).
- Required to submit statistical reports to BNR every month, containing the following information:
  - Number, duration and size of loans made, broken down by gender
  - Breakdown of stated purpose of loans,
  - Details of repayments due, received and delinquent
  - Details of provisions made for any delinquent loans
  - Total number of clients, broken down by gender
  - Any available information on the result of any micro-project funded with a loan
  - Details of any funding received from any donor organization
  - Details of any loan received from a prudentially regulated bank

### **Category 4 – Credit only microfinance institutions**

- Microcredit activities; other microfinance activities EXCEPT receiving deposits and savings.
- Minimum capital 300 millions RWF
- May on-lend funds (grants or loans) from any outside organization
- No maximum size
- Must take the legal form of an s.a.r.l.
- Requirement for licensing with BNR
- Subject to some prudential regulation:
  - No reserve requirement necessary, as no public money is put at risk
  - Other regulation should remain as per the current instructions
- Required to submit statistical reports to BNR every 3 months, containing the following information:
  - Number, duration and size of loans made, broken down by gender
  - Breakdown of stated purpose of loans,
  - Details of repayments due, received and delinquent
  - Details of provisions made for any delinquent loans
  - Total number of clients, broken down by gender
  - Any available information on the result of any micro-project funded with a loan
  - Details of any funding received from any donor organization
  - Details of any loan received from a prudentially regulated bank.

### **Microfinance bank**

In addition, the notion of microfinance bank has been introduced with a capitalisation of 1.5 billions RWF with the authorisation to emit checks, payments cards and access to the refinancing window of the Central Bank. Only one is licensed for the moment: URWEGO Opportunity Microfinance Bank but many medium size COOPECS are showing interest toward this type of MFI.

The responsibility for the supervision of the MFIS is vested with the National Bank of Rwanda (Central Bank) and this, in accordance with the banking and microfinance laws.

The supervision of MFIS in Rwanda is confronted with several problems of which the most important are:

- The absence of effective management and information system (the majority of MFIS in Rwanda are not computerized);
- A low level of management and governance characterizing the managers and leaders of the MFIS;
- A low capacity of the existing Unions to ensure the control and the follow-up of the activities of COOPECS members to allow the installation of a supervision delegated by BNR.

The functions of regulation of BNR comprise the on site and offsite supervision of the MFIS. BNR can also organize special missions.

For COOPECS, these special missions constitute also an occasion to sensitize the governing bodies on the respect of cooperative principles and all the members on their role in the development of their COOPECS (during general assemblies meetings to which BNR is

invited). Lastly, the special inspections support the confidence of the members and avoid any undue influence on members from the Board of directors and the local authorities.

All MFIS are requested to use the public credit bureau managed by BNR, for all new credit with a value in excess of 200.000 RWF and to consult the credit history of any applicant beyond this threshold

## **Impact of the transformation of UBPR into a commercial bank**

The microfinance sector in Rwanda is dominated by the network of Banques Populaires especially in terms of a number of recipients of the financial services and volume of activities.

In 1972 Switzerland agreed to help Rwanda duplicate the Caisses Raiffeisen model in Rwanda with a double social objective for a Banque Populaire:

1. To offer reliable and affordable deposit products
2. To stimulate the creation of SMEs by democratizing credit

The first Banque Populaire was inaugurated in Rwanda, at NKAMBA in 1975. Their Federation, the Union of the Banques Populaires (UBPR) was inaugurated in 1986.

In 1994 before the war and the genocide in Rwanda, UBPR had more than 130 affiliated Banques Populaires servicing 366.799 members through the country. During the war approximately 7 millions\$ was stolen and the institution closed its doors.

UBPR reopened gradually after the war and in 1996 the system comprised 42.000 members and only 20% of his old staff. Between 1996 and the 1998 operations of credit were stopped because of the important level of nonperforming loans. The distribution of credit started again in 1998 and at the end of 2002 UBPR counted 315.356 members and 148 Banques Populaires.

The 27th General meeting of the UPBR of April 21, 2007 decided to transform this very important coopec into commercial bank which will keep the cooperative principles of governance while offering financial services sophisticated to its members. This was on line with the recommendations of Financial Sector Development Program adopted by the Government. Beginning of the year 2008, these Banques Populaires and their Central Case were transformed into a commercial bank, called Banque Populaire du Rwanda, SA (BPR, SA).

The Banques Populaires transferred all their assets to UBPR after their evaluation. The capital of UBPR was increased by the value of these assets. Thus revalued the capital was increased by 35% which were bought by Rabobank the strategic partner (Rabobank gives the technical assistance necessary to transform BPR into a true commercial bank). The shareholders of BP became the shareholders of BPR. UBPR modified its network by transforming the 40 principal Banques Populaires into branches of BPR and other BP in sub branches. BP has of a banking license with commercial objectives all while maintaining its cooperative characteristics and by preserving the shareholders role and its bond with the local communities.



Although it is difficult to evaluate the impact of this transformation after only approximately a year of operations in the new system, it should be stressed that a positive impact is perceptible.

The impact of this transformation can be appraised in terms of:

- Number of customers after the transformation;
- Volume of collected saving and distributed credit;
- Total assets;
- products to which the affiliated UBPR and its banks did not have access but which are offered by BPR, SA, today and which can justify the customers growth and the increased volume of activities.

This impact can also be evaluated through the contribution of the process of transformation and change of the Banques Populaires in a commercial bank in the promotion of the inclusive financial sectors to Rwanda.

Since March 2008:

- Deposits of BPR, increased from **64 billion RWF** as at 31/12/2007 to **78 billion RWF** on 31/12/2008 (+ 19%).
- During the same period, the loans passed from **57 to 83 billion RWF** (+34, 5 %).
- As for total assets, it increased from **83 billion RWF** to **108 billion RWF**, (+ 23, 1%).
- The number of customers passed from **658 867** to **948 028**, (+ 30, 5%).

Among the products to which the Banques Populaires as Cooperatives did not have access but was already integrated after transformation are the international transfer of funds and the use of SWIFT. In addition, BPR S.A. has corresponding banks abroad. The transformation allowed direct insertion of BPR in the international trade.

In addition, the member of a banque populaire which yesterday could only make withdrawals at the bank of which he was member, can today as a customer make withdrawals from any branch of BPR, SA and at the automatic teller machines of all the commercial banks installed in Rwanda.

## **The UMURENGE SACCOS (COOPECS) project**

The National Dialogue Meeting of December 2008 proposed a strategy of integration of the rural population in the financial system. This strategy will “set up at least a COOPEC within each UMURENGE throughout the country”. In order to attain this objective the following actions are undertaken:

- Make census and mapping of SACCOS and other MFIS, branches and counters per sector;
- Identify Imireng with no point of services by any SACCO
- Sensitize the population for organizing all rural activities through cooperatives
- Provide support to SACCOs with non performing loans recovery problems;

## **Challenges and way forward**

The main challenges in regulating the MFIS are the following:

- Low reporting level from the MFIS and low reliability of the transmitted information which are related to lack of computerization and low capacity of the managers. This

will be addressed through the computerization of the MFIS in particular of the 3rd category, reinforcement of the managers' capacities (funds set up by the Government are available for capacity building). The design of an accounting reference framework specific to the MFIS adapted from the banks chart of accounts has also improved the quality of information sent by MFIs;

- Culture of non repayment and long process to recover the loans granted by the MFIS. This will be addressed by financial education of the population and installation of an adapted legal framework to ease the loan recovery process;
- Absence of a depositors safety net will be solved through the national microfinance policy and the microfinance law which propose the creation of a national stabilization fund. This fund will protect depositors in the event of the liquidation of one or many MFIs
- Weak governance characterizing the MFIS in particular COOPEC is addressed through the training and integration of new leaders
- Limited supervisory capacity at the Central Bank to oversee the activities of more than 100 MFIs. This will be addressed through hiring and training new supervisors and putting in place delegated supervision through MoUs to be signed with Unions

At the end of 2008 the central bank has a better knowledge of the MFIS sector and a better trained team of supervisors. The microfinance actors understand better through seminars and meeting the microfinance legal and regulatory framework and their responsibilities in terms of corporate governance and financial management of their institutions. Through the microfinance policy the Government is dedicating funding to improve the computerization of MFIS and the training of its managers and lines of credit are available in order to increase the loans extended to MFIs clients.

## Annex 1: MFIs-FINANCIAL DATA

<b>SA&amp;SARL</b>	<b>31/12/2007</b>	<b>31/12/2008</b>	<b>Change 2007/2008</b>
Members/Clients	262 019	290 948	11%
Assets	11 184 385 399	15 064 344 732	35%
Cash and equivalents	2 325 978 038	2 617 062 431	13%
Loans-Gross	6 410 941 059	10 599 599 488	65%
Non Performing Loans (NPL)	1 262 522 189	944 076 211	-25%
Provisions	726 847 057	401 577 323	-45%
Loans-Net	5 684 094 002	10 198 022 165	79%
NPL Rate	20%	9%	-55%
Deposits	5 696 350 707	8 125 008 720	43%
<b>Equities</b>	<b>2 945 226 168</b>	<b>6 200 481 785</b>	<b>111%</b>
Share capital	3 994 986 452	5 040 491 936	26%
Subsidies	300 722 214	1 110 260 552	269%
Reserves	219 751 065	1 841 236 419	738%
Accumulated loss/Profit	-755 305 546	-1 841 236 419	144%
Profit/Loss	-814 928 017	49 729 297	-106%
Solvency	26%	41%	56%
<b>SACCOs</b>			
<b>SACCOs</b>	<b>31/12/2007</b>	<b>31/12/2008</b>	<b>Change 2007/2008</b>
Members/Clients	369 670	396 004	7%
Assets	36 751 098 534	43 763 739 376	19%
Cash and equivalents	8 524 773 010	4 689 229 357	-45%
Loans-Gross	20 977 768 075	31 981 678 351	52%
Non Performing Loans (NPL)	991 411 757	1 338 674 885	35%
Provisions	749 397 709	849 897 635	13%
Loans-Net	20 228 370 366	31 131 780 716	54%
NPL Rate	5%	4%	-11%
Deposits	22 973 504 251	31 163 186 556	36%
<b>Equities</b>	<b>9 016 889 108</b>	<b>12 298 216 126</b>	<b>36%</b>
Share capital	1 315 567 465	1 961 560 819	49%
Subsidies	4 529 753 567	4 844 985 198	7%
Reserves	309 306 074	519 719 944	68%
Accumulated loss/Profit	1 824 127 280	1 326 183 161	-27%
Profit/Loss	1 038 134 722	3 645 767 004	251%
Solvency	25%	28%	15%

<b>SA/SARL/SACCOs</b>	<b>31/12/2007</b>	<b>31/12/2008</b>	<b>Change 2007/2008</b>
Members/Clients	631 689	686 952	9%
Assets	47 935 483 933	58 828 084 108	23%
Cash and equivalents	10 850 751 048	7 306 291 788	-33%
Loans-Gross	27 388 709 134	42 581 277 839	55%
Non Performing Loans (NPL)	2 253 933 946	2 282 751 096	1%
Provisions	1 476 244 766	1 251 474 958	-15%
Loans-Net	25 912 464 368	41 329 802 881	59%
NPL Rate	8%	5%	-35%
Deposits	28 669 854 958	39 288 195 276	37%
<b>Equities</b>	<b>11 962 115 276</b>	<b>18 498 697 911</b>	<b>55%</b>
Share capital	5 310 553 917	7 002 052 755	32%
Subsidies	4 830 475 781	5 955 245 750	23%
Reserves	529 057 139	2 360 956 363	346%
Accumulated loss/Profit	1 068 821 734	-515 053 258	-148%
Profit/Loss	223 206 705	3 695 496 301	1556%
Solvency	25%	31%	26%