

**THE EFFECT OF MICROFINANCE INSTITUTIONS ON
SOCIO-ECONOMIC DEVELOPMENT:
A CASE STUDY OF INKINGI S.A
IN KICUKIRO DISTRICT**

BY

TWAGIZIHIRWE Valence

MBA/10009/81/DF

SUPERVISOR

PROF. SUNDAY OLWOR NICHOLAS

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DECLARATION

I, TWAGIZIHIRWE Valence, hereby declare that this work is a result of my own effort and has never been submitted for any award in any other University or Institution of Higher Learning. Any mistakes in this work are entirely mine.

Signature:




Date

15/03/2010

APPROVAL

This research titled "*The Effect of Microfinance institutions on socio-economic development: A case study of INKINGI S.A in Kicukiro District*" has been done under my supervision as the candidate's University Supervisor and has been submitted with my approval for examination.

Signature: 

Date: 

Prof. Sunday Olwor Nicholas

DEDICATION

To my wife MUSABYEMALIYA Godélive, my lovely girls Twagizahirwe Merci-Abba, Twagizahirwe Aimée-Kévine and Twagizahirwe Igiraneza Sincère, to my father Munyawera Bernard and late mother Mukandamage Catherine as well as my mother-in-law Icyitegetse Bernadette.

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LIST OF ACRONYMS

APRM:	African Peer Review Mechanism
ATM:	Automatic Teller Machine
AuSAID:	Australian Aid for International Development
DDP-KICUKIRO:	District Development Plan - Kicukiro
EIU:	Economist Intelligence Unit
HIV:	Human Immunodeficiency Virus
ICT:	Information and Communications Technology
KIU:	Kampala International University
MFIs :	Microfinance Institutions
MINECOFIN:	Ministry of Finance and Economic Planning
NBR:	National Bank of Rwanda
NGO:	Non-Governmental Organization
RMF:	Rwandan Microfinance Forum
S.A:	Société Anonyme
SPGS:	School of Post Graduate Studies

ABSTRACT

This report is a result of an academic research entitled the Effect of Microfinance Institutions on socio-economic development, a case study of INKINGI S.A in Kicukiro district. The objectives of the study were to investigate the products/services offered by microfinance INKINGI S.A, to assess the contribution of products/services offered to socio-economic welfare of beneficiaries, and to identify challenges faced by INKINGI S.A in offering products/services.

To answer research questions, purposive sampling, was used to sample the population of the study. Instruments used to collect primary data included the questionnaire and interview guide while tables and graphics were used in presentation and analysis of data.

It was discovered that Microfinance INKINGI S.A offers limited number of products/services: savings at credits/loans and guarantee letters. The researcher found that those products have contributed a lot on improvement of socio-economic conditions of the beneficiaries particularly and of Kicukiro districts in general because clients afforded education, medical insurance, food security and empowerment, which led to improvement of socio-economic indicators of Kicukiro district. The challenges faced by INKINGI S.A include among others lack of new technology, interest rate and collateral rates imposed by the National Bank of Rwanda.

The researcher recommended among others to increase the products offered like training, insurance and recommended to the Government to review interest rate and collateral policy to ease poor people access to products/services of microfinance institutions.

CHAPTER ONE

INTRODUCTION

1.0 Overview

This chapter consists of the general introduction of the research. It covers the background of the study, the statement of the problem, the purpose in conducting this study, the research objectives, the scope and the significance of the study.

1.1 Background of the Study

Today, practitioners and donors are increasingly focusing on expanded financial services to the poor in frontier markets and on the integration of microfinance in financial systems development. This is to provide customers who were traditionally neglected by commercial banks a way to obtain financial services through Microfinance Institutions. The principal purpose is to make small loans with interest for short periods. Rwanda is a small, landlocked country in Central Africa with 8.2 million people and a high population density (337 people per sq. km) that became independent in 1962. Rwanda is one of the poorest countries in the world with 59.05% of its population under the poverty line (MINECOFIN, 2008:15). There can be no meaningful development with 90 % of the population being excluded from financial services. Microfinance program must have a wider reach to the population (93%) largely neglected by the commercial banks. It is clear, therefore, that Microfinance Institutions have a very significant role to play in enabling the majority of the population of Rwanda to access financial services. By considering the number of depositors and borrowers, Microfinance Institutions serve 88% and 90%, respectively, against 12% and 10% for the commercial banks(MINECOFIN

2007:3). Thus, socio-economic development could not be achieved without access to financial services by the poor. Microfinance is considered as a powerful tool to sustainable development of local population.

After the 1994 genocide in Rwanda, the microfinance industry experienced spectacular development, with the support of international organizations involved in humanitarian assistance. These gave material assistance to the population and had programs which involved micro-credit components to assist in reconstruction period, and in November 2005, the National Bank of Rwanda had a list of 107 Microfinance institutions and donor programs (NBR, 2005).

In 2006, the Government launched the reform of the financial sector with the objective of creating an effective and efficient financial system. The major components of that reform included the strengthening of the legal and regulatory frameworks as well as the supervisory framework of the banking system, the introduction of new financial instruments, the liberalization of interest rates, and the opening up of the banking system to foreign banks. As a result, many microfinance institutions incapable of conforming to certain conditions required were closed- citing mismanagement and big losses after they have lent out to thousands of often none-credit-worthy clients.

The number of microfinance fully licensed has shrunk from 107 in 2005 to 53 in December 2006 (NBR, 2006). Thereafter, huge sums of money geared to building capacity in the sector have been earmarked but this money comes along with serious warnings against its abuse. All this revival effort was hinged on the widespread belief that Microfinance institutions, if properly managed can help improve socio-economic conditions of the population that deteriorated after 1994 genocide.

Today, Microfinance is seen as an important instrument in the implementation of the Government program to reduce the number of the people below the poverty line from 60% in 2000 to 30% in 2015 (MINECOFIN, 2007) . It is expected that Microfinance Institutions will play key effect in transforming socio-economic conditions of Rwanda from a low-income into a medium-income country with a dynamic, diversified, integrated and competitive economy by creating investment opportunities through its services offered to the population. (Karuhanga, 2008, May 16).

INKINGI S.A Microfinance is one of the strong microfinance since 2004 that resisted the reforms of 2006 by National Bank of Rwanda (NBR, 2007) and operates in different district of Rwanda, including Kicukiro district. Our aim is to scrutinize the effect of this microfinance in the socio-economic development before and after microfinance industry reforms, taking a case in Kicukiro district.

1.2 Statement of the Problem

Microfinance institutions are critical to Africa's quest for solutions to the continent's development challenges (Charitonenko and Champion, 2003). Microfinance institutions are set up in order to finance small and micro-enterprises, which are excluded from traditional banking practice and thus to boost socio-economic development of the great number of the Rwandan population under poverty line (MINECOFIN (2007). A number of initiatives have been taken to improve people's access to economy and undertaking profit generating projects in order to promote their socio economic welfare. The reforms of microfinance industry carried out by National Bank of Rwanda in 2006 were in this regard. In 2007, a national policy on microfinance was established with mission to create

an enabling environment for professional and sustainable Microfinance institutions that will be capable of fully playing their role as partners in delivering national, regional and global development objectives. The objectives of microfinance policy (MINECOFIN, 2006) were 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 Microfinance institutions which offer an improved quality and range of products and services and 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 women. Other microfinance policies include the increase of the financial and investment capacity of individuals and the empowerment of women as well as facilitating job creation and employment through fostering the microfinance sector.

In this regard, the researcher sought to find out the effect of microfinance INKINGI S.A in improvement of socio-economic development among Rwandan people residing in urban and non urban area, taking the case of Kicukiro district as it embraces both urban and rural areas.

1.3 Purpose of the Study

The purpose is to examine the importance of microfinance INKINGI S.A as one of financial providers to people with medium and low-income and living in rural and urban areas. People of Kicukiro district have been working with INKINGI S.A since 2004 and

the improvement of socio-economic conditions of the population of Kicukiro district as expectation from this microfinance need to be investigated.

1.3.1 General Objective

The general objective is to identify the effect of microfinance institutions in overall socio-economic development of a country or a region as one of financing tools to poor people living both in urban and rural areas.

1.3.2 Specific Objectives

- i) To investigate the products/services offered by the microfinance INKINGI S.A
- ii) To find out the contribution of products/services offered to the socio-economic welfare of beneficiaries.
- iii) To identify challenges faced by INKINGI S.A in offering products/services.

1.4 Research Questions

The following questions will guide the researcher during the overall research to be conducted in both microfinance institution INKINGI S.A and in Kicukiro district.

- i) What are the products offered by the microfinance INKINGI S.A?
- ii) What are the contributions of products/services offered to the socio-economic welfare of beneficiaries?
- iii) What are the challenges faced by INKINGI S.A microfinance in offering products/services?

The present work investigates on the effect of Microfinance INKINGI S.A on socio economic development.

1.5 Scope of the Study.

In order to identify the effect of Microfinance INKINGI S.A on socio-economic development, the research was conducted in Microfinance INKINGI S.A whereby staffs and clients were targeted and key staff of district of Kicukiro involved in socio-economic development of the district. Microfinance INKINGI S.A is located in Kicukiro and has a good experience in microfinance industry since it didn't collapse in 2006 microfinance downturn in Rwanda. This study covered the period from 2004-2008. Kicukiro district have been chosen for its hybrid sides of covering both rural and urban areas. The study will look at the effect of microfinance institutions on socio-economic development of Kicukiro district.

1.6 Significance of the Study

This study will benefit, first of all, the district of Kicukiro as an assessment tool of the effect of microfinance INKINGI S.A as one of its development stakeholders. The Microfinance INKINGI S.A will also use the work as a self-evaluation of their importance in the district they are settled in and how they can improve their services to match KICUKIRO district's needs. At the end of this study, the findings will guide both Kicukiro district and microfinance INKINGI S.A in improvement of their partnership in development and in revising strategies. Other beneficiaries include clients of Microfinance INKINGI S.A, general public, investors, researchers to be aware of trends

of Microfinance INKINGI S.A in terms of its role and credibility. This research will be a contribution to the existing knowledge in Microfinance and will help upcoming researchers, including K.I.U community, in their further researches, especially in microfinance area.

1.7 Structure of the Thesis

This thesis is divided into five chapters. The first chapter deals with introduction, the second chapter is about the literature review, the third chapter gives a research methodology, the fourth chapter presents the findings and the fifth and last chapter provides the discussions of findings, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 Overview

In this chapter, the researcher reviews the available literature about the study. The literature review is divided into sections that include understanding the microfinance, forms of products/services offered by microfinance institutions and microfinance outcome. It also covers the extraneous factors which influence the success of microfinance and the challenges faced by microfinance in repayment of the loans.

2.1 Understanding the Microfinance

Microfinance refers to the provision of credit, savings and other financial services to low income households, for very short periods of time and that the lending involved does not require traditional forms of collateral (Oyen and Levitsky, 1999). This definition is completed by the one provided by the National Bank of Rwanda as the act for an individual or legal entity to either grant credit to a clientele which is not normally covered by classic banking and financial systems and/or which has no sufficient collateral as security to ensure full reimbursement of the granted loan (National Bank of Rwanda NBR, 2002).

This definition explains the context of Microfinance in Rwanda the National Bank is supposed to regulate. Therefore, Microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector. Microfinance initiatives are recognized as development tools to empower sustainable development.

Microfinance is also defined as a “developmental instrument through which people excluded from formal financial institutions access decentralized financial services, or financing micro-credits initiated by economically active poor who cannot access formal bank loans due to the lack of guarantees, lack of information and heavy procedures” (RMF,2002:7). Ledgerwood (1998) argued that in addition to financial intermediation, many MFIs provide social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Thus, the definition of microfinance should often include both financial intermediation and social intermediation.

Microfinance is therefore, the supply of loans, savings, and other basic financial services to the poor. People living in poverty, like everyone else, need a diverse range of financial instruments to run their businesses, build assets, stabilize consumption, and shield themselves against risks. Financial services needed by the poor include working capital loans, consumer credit, and savings, pensions, insurance, and money transfer services.

Note that microfinance differ from Microcredit promises to help recipients achieve economic self-sufficiency and break cycles of poverty by providing cash infusions necessary to purchase productive assets. These assets, whether crops or durable goods, provide the basis for entrepreneurial ventures that can help recipients begin to earn more income. (Jason and Kasia, 2008:3)

From the definition of microfinance, we can understand that the purpose of microfinance is to give full access to credit by poor people with no collateral and who are unable to fulfill all requirements to work with classical bank.

2.2 Products/services offered in Microfinance institutions.

Kumar, Sanu and Newport (2008) were interested in Operational guidelines for sustainable housing microfinance in India and found that Microfinance institutions, planning to include housing product, must carefully assess whether they have the management and technical capacity to do so. They also concluded that Microfinance should also ensure that housing Microfinance suits their strategy from institutional and financial perspectives. This research was done to emphasize the role of microfinance in the housing development.

Orland (2002) observed that while there are methodological difficulties involved in measuring income brought about provision of credit; studies have demonstrated that the availability of credit can have positive effects. She demonstrated that borrowers who already have assets and skills are able to take risks for use of credit to increase their incomes. He argues that the poorest borrower becomes worse off as a result of micro enterprise credit. This is because their business failure is more likely to provoke a livelihood crisis than it is for turnover with a more secure asset base. The point is that the skills are required for the borrowers the reason why training a group formation is very important for beneficiaries of microfinance products/services.

Microfinance consists of the provision of “a broad range of financial services such as deposits, loans, payments services, money transfers, and insurance to the poor and low-income households and their farm or non-farm micro-enterprises” (Charitonenko and Campion, 2003). According to Rutherford (1999) the microfinance services may be seen in terms of four mechanisms. First, **loans** which allow a lump sum to be enjoyed now in

exchange for a series of savings to be made in the future in the forms of repayment installments. Second, **Savings** which allow a lump sum to be enjoyed in the future in exchange for a series of savings made now. Third, **Insurance** this allows a lump sum to be received at some unspecified future times if needed in exchange for a series of savings made both now and in the future. Insurance also involves income pooling in order to spread risk between individuals on the assumption that not all those who contribute will necessarily receive the equivalent of their contribution. This allows a lump sum to be enjoyed as a specified and generally distant date in future in exchange for a series made now. Lastly, **Pension** which allows a lump sum to be enjoyed as a specified and generally distant date in the future in exchange for a series made now. Note that all the services above don't require clients to possess adequate material securities to offer in order to fully guarantee the repayment of the credit awarded.

By using the definition of the Asian Development Bank (Conroy, 2003) explains that microfinance is "the provision of a broad range of financial services such as deposits, loans, payment services, and insurance to poor and low income households and their micro enterprises".

Microfinance attempts to address the lack of access to financial markets. It focuses on providing micro credit – small, collateral-free loans – to the very poor for self-employment. It also provides other financial services such as savings and insurance. Access to micro credit can enable the poor to turn existing skills and market opportunities into income. If they lack these skills or opportunities, they may need to be developed before access to credit is appropriate. (AuSAID, 2006:2)

In Rwanda, National Microfinance Policy (2007) stresses that microfinance must focus on development of products that allow the population an opportunity to have access to credit and to protect their money and wealth, and in credit, to fund productive enterprise and employment creation activities, in order to improve the quality of the life of the population. The objective of this measure is therefore to stimulate Microfinance institutions to serve the targeted population, which would otherwise be left to its fate.

According to Nagarajan (2001), in the delivery of the product/services in microfinance institutions, timely response is essential and the Microfinance institutions need to offer product flexibility and choice to clients. Yet, microfinance institutions need to send clear signals as to the nature of the response and effective coordination with other development actors, Microfinance institutions and government is essential

2.3 Contribution of Microfinance institutions on socio-economic welfare.

Microfinance institutions aim at improvement of socio-economic conditions of beneficiaries of its products/services who are actually people with or without income.

According to Zeller, Lapenu and Greeley (2003), the measurement of social performance involves investigating the structure of an organization (i.e. mission, ownership, management principles, relation to and care for its staff) and its conduct in the market, local and wider community (services, products, market behavior, other relations with clients and other stakeholders). Thus, the dimensions of socio-economic performance with respect to microfinance are summarized in the following table:

Table 2.1 Dimension of socio-economic performance in MFIs.

		Core social issues	Economic issues
Global performances of the institution	Performance monitoring (intentions and actions of the MFI)	<ul style="list-style-type: none"> - Outreach to the poor and excluded: Who are the clients? - Adaptation of the services and products to the target clients - Social and political capital of the clients / Empowerment : participation in MFI decision making; "voice" for those being served to avoid "mission drift" - Social responsibility of the MFI; relation with client and community 	<ul style="list-style-type: none"> - Portfolio quality - Efficacy and productivity - Financial management - Profitability - Quality and diversity of the financial services offered
	Impact assessment (outcome)	<ul style="list-style-type: none"> - Employment creation for the excluded population - Empowerment : position of individuals in their family and communities; social capital building - Health improvement - Child education, etc. 	<ul style="list-style-type: none"> - Change in income and expenditure - Change in assets and living standard - Food security - Employment creation at community level

Source: Zeller, Lapenu and Greeley (2003: 5),

From the table 2.1, the clients and beneficiaries of microfinance services expect to have improvement of education, health, empowerment in the community, employment creation, change in assets and living standards, change in income and expenditure and so on. While Microfinance has proved to have an impact on the lives of poor people at an individual level, evidence of its socio-economic impact on an aggregate level is more difficult to establish. (Hechler-Fayd'herbe, 2009:1). Therefore, Hechler-Fayd'herbe (2009) found out that socio-economic role of microfinance can be assessed in measuring standards of living. These standards are measured using a variety of common and well-established indicators, including education, number of children in school, diet: number of meals eaten per day, household assets, type of home (mud vs. brick walls, thatch vs. metal roofing) and ownership of a kitchen house bath shelter, latrine, bed and mattress, livestock value.

According to Tapan and Parikh (2006), the concept of social performance focuses not only on the final impact, but also provides a framework to understand the process by which socio-economic objectives are achieved. The first step is Intent and Design: What does the Microfinance institution seek to achieve? (Its mission and social objectives). How are services and performance objectives designed to this end? The second step is about activities: How are services to target clients through specific organizational structures created to reach the organization's objectives? The next step is about Output: What services are delivered? How good are they? To whom are they delivered? What is the breadth and depth of the outreach? Are the services sustainable? Then, the Outcome: What changes result from the use of the services provided? Do businesses expand? Incomes increase? Skills develop? Lastly, the Impact: What are the longer term,

sustainable changes as a result of the outcomes, such as poverty reduction? What are the unintended consequences?

These steps show clearly how to assess the outcomes of microfinance services towards their beneficiaries.

Rwanda attempts to address socio-economic problems of the population in the short, medium and long term. In general, the prior activities listed concern improvements in health and HIV/Aids, education, access to basic necessities such as water, housing and energy, access to markets and finance, development of ICT, gender equality and resource mobilization (APRM, 2005:168).

2.4 Extraneous factors influencing microfinance services

According to EIU (2009), some factors which hinder the microfinance development among the states include the following elements:

- Regulatory framework: Regulation of Microfinance institutions operations and examination capacity;
- Investment climate: Political stability, Capital market stability, Microfinance Institution transparency, judicial system;
- Institutional development: range of microfinance services, level of competition.

Australia's approach to microfinance and enterprise development focuses on a broad range of measures to be taken to help strengthen the financial sectors in partner countries and help them work better for the poor. The approach includes the creation of an enabling environment by improving financial and business sector regulation. The approach also provides financial literacy training and supporting business skills development. (AusAID, 2006:3)

Maimbo, (2000), in his research on Banking regulation and supervision in Tanzania, Uganda and Zambia with a purpose to describe the problems of bank regulation and supervision found in Tanzania, Uganda and Zambia, highlighting the institutional weaknesses facing bank regulators concluded that, while significant strides have been taken in all three countries, there is an important aspect of these reforms that needs to be addressed — the practical problem of differentiating between appropriate and inappropriate regulations for developing economies.

The regulation of microfinance must be done carefully otherwise it may hinder the objectives and the purpose of microfinance.

Mwenda, and Muuka (2004) in their paper on best practices of Microfinance in India who concluded that some policy recommendations and a set of “best practices” for the future success of Microfinance institutions on the continent include the need to ensure flexibility and careful government regulation and supervision of Microfinance institutions. This paper talks about the necessity of setting regulations with care to avoid any consequences in the productivity of microfinance.

Staschen (1999) gives us a great contribution through his study on Regulation and Supervision of Microfinance Institutions, with a purpose to set up a supervision and regulation theories of Microfinance institutions. He argues that regulations by means of a special law for Microfinance are in danger of stifling institutional variety and innovation in microfinance. Competitive neutrality can only be achieved by discriminate treatment or functional regulation of different institutional types. Microfinance institutions must be regulated, if they start mobilizing deposits from the general public including non-

members. Also member-based institutions should be regulated, if they exceed a certain size. Every institution is exposed to factors that may hinder or paralyze its activities. Microfinance institutions are also confronted with extraneous factors that may impede the attainment of their objectives. The most important factors evoked by different authors include the quality of regulation and supervision of microfinance institutions, investment climate and the institutional development.

2.5 Challenges faced by microfinance in products/services offer

Agriculture is a risky business since there are a lot of exogenous variables that determine the outcome. The risks include weather conditions, pests and volatile prices (Chua et al, 2000). For instance, a draught could set back an entire village (or region) and as a result jeopardize the possibility of repaying a loan. It is important to understand issues such as crop cycles and seasonal patterns. In lending, information asymmetry rises from the fact that banks do not have sufficient information regarding the riskiness of the clients' investment projects. This will induce them to set an interest rate at a high level to compensate for the risk of not knowing which investor that is "risky" and which that is "safe". The high interest rate will drive the safe investors out of the credit market, and the ones left will be the most risky investors (Morduch and Armendariz, 2005).

"The root challenge is that microfinance institutions, like most other programs developed in the charity sector, lacks standardized, readily available, outcome based measures that would enable good funding decisions. Repayment rates and other commonly reported measures tell us nothing about the impact of a program on poverty....[Investors in microfinance should] insist on a set of clearly defined measures of success – income

growth, quality of housing, school enrollment and nutrition – for the programs [they] support and be willing to pay for it.” (Harvard Business Review, Sept. 1, 2007)

According to Parikh (2006) it has proved that microfinance industry faces significant challenges in maturing and scaling to sustainability. The major tasks faced by microfinance service providers today include lack of exchange of information with remote clients, management and processing of data at the institutional level and the collection and delivery of money to remote rural areas. Each of these has been a difficult problem to solve for microfinance institutions worldwide, and may offer opportunities for information technology-based solutions.

2.6 Mechanism of MFIs to overcome market imperfections and risks

The lending structure used by microfinance programs gives rise to a number of mechanisms that help manage information and risk in a way that may lead to higher repayment rates as compared to traditional banks in underdeveloped areas. One of the major features of microfinance is *group lending* where the concept of joint-liability helps mitigate problems caused by adverse selection and moral hazard. This is done partly by letting the group impose so called social sanctions on defaulting fellow group members.

Other important mechanisms besides group lending are the use of dynamic incentives, collateral substitutes, regular repayment schedules; the targeting of women, social programs and training, which according to theory plays a significant role in contributing to a high repayment rate (Morduch & Armendariz, 2005).

Dynamic incentives consist of one threat and one opportunity: the threat of being cut off from future loans and the opportunity of borrowing increasingly larger amounts. The design encourages a long-term relationship between borrower and lender, quite opposite

to the experience in the past where the perceived short-term association to the bank lowered the repayment incentive.

The collateral substitutes follow the Grameen model: the borrowers are required to contribute 0.5 percent of every unit borrowed to a [Group] fund that will serve as insurance in case of default, death or other significant events.

Social programs and training: microfinance institutions offer training/courses to their clients and hence they interact with their clients beyond just offering financial services. The training covers a broad spectra of subjects ranging from business topics (e.g. entrepreneurial skills) to more family oriented issues such as health, education etc.

Targeting women. Morduch and Armendariz (2005) states that women tend to be more cautious than men and that men are more likely to have trouble sustaining a membership in the group for a longer period.

Microfinance institutions face so many risks in their daily activities but studies show some strategies that they might implement to overcome difficulties: the use of group lending, dynamic incentives, the collateral substitutes, social programs, training and the target of women.

2.7 The historical background of Microfinance institutions in Rwanda

The microfinance sector in Rwanda is relatively young. Although small self-help peasant organizations (such as tontines and Ibimina) have existed for some time, the sector started to be formalized with the creation of the first Banques Populaire in 1975.

Following the 1994 genocide in Rwanda, the microfinance industry experienced spectacular development, with the support of international organizations involved in humanitarian assistance. These gave material assistance to the population and had

programs which involved Microcredit components. During the emergency period, loans were not, in some cases, distinguished from grants or gifts, and created confusion amongst the population. This added to the development of a culture of non-repayment, especially at Banques Populaire, which contributed to the non-performing loan rate of 45%. (NBR REPORT, 2000:11) As the Government moved into a development phase, several NGO's transformed themselves into microfinance institutions, in many cases operating without professionalism.

After 1995, the Government launched the reform of the financial sector with the objective of creating an effective and efficient financial system. The major components of that reform included the strengthening of the legal and regulatory frameworks as well as the supervisory framework of the banking system, the introduction of new financial instruments, the liberalization of interest rates, and the opening up of the banking system to foreign banks. These reform measures have had a tremendous positive impact on the development of the financial system.

In 1999, NBR was assigned the responsibility to regulate and to supervise Microfinance institution. The years 2002 and 2003 were characterized by introduction of two instructions: one for regulating microfinance activities in general and another specifically to regulate Savings and Credit Cooperative Societies. Under the law N° 08/99 governing banks and other financial institutions, NBR has introduced two instructions for regulating micro finance activities. Those are instructions n° 06/2002 and n° 05/2003. (NMP, 2007: 23) These instructions on microfinance considered all microfinance institutions in the same way, whatever their size or services rendered. As a result, the approval procedures required prudential ratios, as well as the requirements in the area of internal and

information management control and these systems were the same for all microfinance institutions.

This universal legislation and extended supervision was chosen as the best way to protect the savings of depositors is to have profitable microfinance institutions that are adequately capitalized, and whose management is healthy and prudent. Microfinance Institutions which only offer credit were regulated and controlled to avoid the risk of contagion of depletion of capital reserves (especially given the small size of Rwanda) and to help foster a good culture of credit. There was no central organ or apex organization in place, which had the mission, capacity and authority to set standards, ensure their application and punish those who did not conform. Self-regulation has more chances of success when Microfinance institutions are attached to a sound structure or agree to respect the standards set by such an apex organization.

The regulatory provisions of 2002 and 2003 have been considered as a constraint for many microfinance institutions incapable of conforming to certain conditions required to be officially recognized. Nevertheless, these NBR instructions aimed at framing the management of these institutions so as to ensure their sustainability and thus protect public deposits.

2.7.1 The Current Situation of Microfinance Institutions in Rwanda

In June 2005, Rwanda had almost 230 institutions involved in the microfinance sector (including 149 people's cooperatives). Geographical coverage of MFIs is unequal with

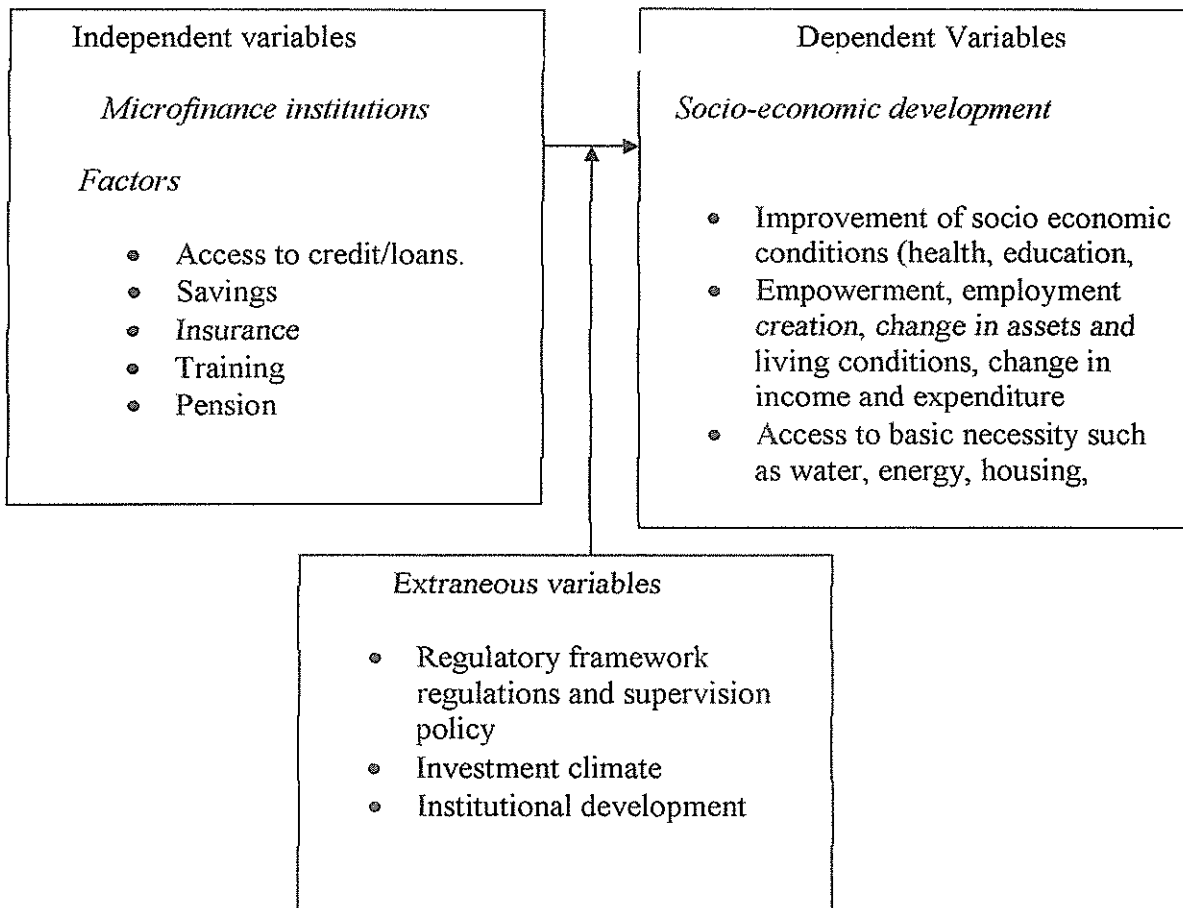
more concentration in urban areas and some trade centres. End 2005 and beginning 2006 were characterized by the closure of some MFIs that did not respect norms, and the process of their liquidation has commenced. It should be noted that certain MFIs are grouped within an association called Rwandan Microfinance 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 the Microfinance Institutions and so is not a strong entity. (NBR, 2008: 19)

It may also be noted that three forms of organization are accepted in order to operate as MFIs. These are Cooperatives, Partnership (S.A.) and Limited liability companies. There are also informal status options of intervention in microfinance, notably, 'tontines' (rotating associations) commonly called IBIMINA.

Microfinance INKINGI S.A is a partnership institutions created in 2004 to provide financial services to poor people with no access to classical banks and help them improving their socio-economic welfare. INKINGI S.A has a vision to become a leading microfinance in transforming lives of Rwandese families. It has a mission to promote the holistic transformation of socio-economic conditions of poor through the development of products/services in the response to the needs of beneficiaries.

2.8 Conceptual Framework

Figure 2.1 Conceptual framework of the study



Source: Author, 2010

The conceptual framework (Figure 2.1) points out the independent variables (Microfinance institutions) which provide various products/services such as credits/loans, savings, insurance, training and pension. The quality and the way products/services are offered influence on socio-economic conditions of the users (dependent variables) that may include health, education, empowerment, changes in income and access to basic needs. Therefore, some extraneous factors (regulations and supervision policies,

investment climate and institutional development) may occur and interfere between independent and dependent variables and impede their relationship.

2.9 Review

This chapter consisted of presenting the available literature about the study. Important sections covered included the understanding of microfinance, forms of products/services offered by microfinance institutions and microfinance outcome. It also covered the extraneous factors which influence the success of microfinance and the challenges faced by microfinance in repayment of the loans as well as mechanism through which Microfinance institutions overcome market imperfections and risk. Other topics included the historical background of microfinance institutions in Rwanda to the current situation. The conceptual framework was also presented in this chapter. Next chapter will focus on methodology used in overall research.

CHAPTER THREE

METHODOLOGY

3.0 Overview

This chapter outlines in detail the manner the research has been conducted. It focuses on the research design, sampling design, study area, research procedure used in the study. It also states data collection methods and data processing and analysis tools chosen and the limitations that the researcher encountered in conducting the present work.

3.1 Research Design

Research design is defined as the scheme, outline or plan that is used to generate answers to researcher problems. Research design can be regarded as an arrangement of conditions for collection and analysis of data in a manner that aims to combine reliance with the research purpose (Bouma, Gary and Akinston, 1996). This study was based on both qualitative and quantitative research design with a case study. A case study is an intensive analysis of a single instance of a phenomenon structure or organization being studied. It tries to discover a unique feature and common traits shared by members of the group or classification (Maicibi, 2007). This study has highlighted the effect of Microfinance INKINGI S.A on socio-economic development of Kicukiro district. There was a systematic collection and presentation of data that gave a clear insight of the issues under discussion in this work.

3.2 Population

The study was conducted in Kicukiro district at Microfinance INKINGI S.A Branch of Gikondo. The population under study comprised all staff of INKINGI S.A, clients and staffs of Kicukiro district. Microfinance INKINGI S.A, Branch of GIKONDO counts 8 employees and 191 active clients with more than 1 year in transactions with INKINGI S.A, while staffs of Kicukiro district are 62 employees.

3.3 Sampling Procedure

Because of the nature of the study, purposive sampling or judgmental sampling regarded as the use of common sense regarding the participants from whom the information will be collected (Amin, M.E. 2005:242), was used to identify and select staff members both from microfinance INKINGI S.A, clients and staff of KICUKIRO district. In this case, only staffs of INKINGI S.A involved in daily management and capable to provide useful information for the research were targeted and clients with more than 1 year experience with microfinance INKINGI S.A were the only clients considered. The same in Kicukiro district staff members, the researcher chose three staff in charge of planning, socio-economic departments of the district.

3.4 Sample Size

Three staffs of Microfinance INKINGI S.A include the Manager, the Credit controller and the Accountant. Among 162 staffs of Kicukiro District, only four staffs of socio-economic department were considered. Total clients of Microfinance institutions with more than 1 year with INKINGI are 191. The sample size can be illustrated in the table below.

Table 3.2 Sample size

Respondents	Population	Sampled respondents	Returned questionnaires
Staff of INKINGI S.A	8	3	3
Clients	191	191	130
Staff of Kicukiro district	62	4	4
TOTAL	261	198	137

Source: Author, 2010

The researcher interviewed 7 staffs (3 from INKINGI and 4 from KICUKIRO District) and administered 191 questionnaires to clients of INKINGI and among whom 130 completed and returned questionnaires. The response rate of returned questionnaires is 68 % and was considered by the researcher enough in attainment of objectives of the study.

3.5 Instruments

The instruments used in this research include questionnaires, documentary reviews and interviews guide. The questionnaire was well structured in order to get all necessary data from respondents. Documentary review helped in getting first hand information through critical examination of recorded information from various sources which related to the research questions.

3.5.1 Validity and Reliability of Instruments

A) Validity

To ensure the appropriateness and the consistency of the instruments used, the researcher has brought instruments to validity and *Content validity* has been used. It focuses upon

the extent to which the content of instrument corresponds to the content of the theoretical concept it is designed to measure (Amin, 2005). In this regard, instruments were brought to four experts in the area of the research and three of them agreed that the items in instruments were valid. From there, the researcher calculated the inter-judge Coefficient of validity which gave $0.75 > 0.7$ standard of Content Validity Index (CVI) (Amin, 2005:288) and concluded that instruments were valid.

B) Reliability

The reliability of the instruments refers to the consistency of an instrument in measuring what it is supposed to measure. The questionnaire was first tested before collecting desired data. A pretest was done among colleagues, of which after a thorough screening recommended some modifications. The same questionnaire was given to four experts in the field of studies including the supervisor and some adjustments were done. Lastly, the questionnaire has been distributed to a sample of 10 clients of Microfinance INKINGI and responses were assessed and found well answered and hence the questionnaire was deemed reliable.

3.6 Procedure

A research problem was presented to the department of Business in School of Post Graduate Studies (SPGS) in form of topic before embarking on research proposal that was submitted thereafter to the supervisors. The deputy director of SPGS availed a letter of introduction as legitimacy to conduct research in the identified field. The letter helped the researcher to introduce himself wherever he would enter for research purposes. Depending on the appointments of the respondents, the questionnaires were distributed

and interviews scheduled. Documentary data were collected from existing libraries, Kicukiro district's documentation, in the microfinance INKINGI S.A and at any other sources. Internet was also an important tool of documentary data collection.

3.7 Data analysis

After collection of data using different instruments described above, the researcher concentrated on data presentation and analysis. In data analysis, the researcher used thematic analysis that provided answers to the research question. The analysis of data was done in a logical flow following the research objectives. This means that, the literature review and information collected were analyzed and discussed in compliance with objectives under verification. Data were presented using tables and graphics. This stage led to some conclusions based on reasoned arguments and evidences. After presentation and analysis of data, the researcher has drawn the conclusion and made recommendations.

3.8 Limitations of the Study

- Most of the respondents could not read and write in English and this occupied researcher's most time to translate from English to Kinyarwanda ensuring that the meaning of the questions is not changed.
- In spite of introduction letter, the administration of microfinance INKINGI S.A was reluctant to give the researcher full access to all requested documentation and reports. The researcher managed to get information from staffs through interviews.

3.9 Summary

This chapter was about the methodology used in conducting this research. It focused on the research design, sampling design, study area, research procedure used along the study. Methods of data collection, data processing and instruments were also discussed. The researcher has pointed out the limitations encountered while conducting this study. The next chapter presents the findings of the study.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF THE FINDINGS

4.0 Overview

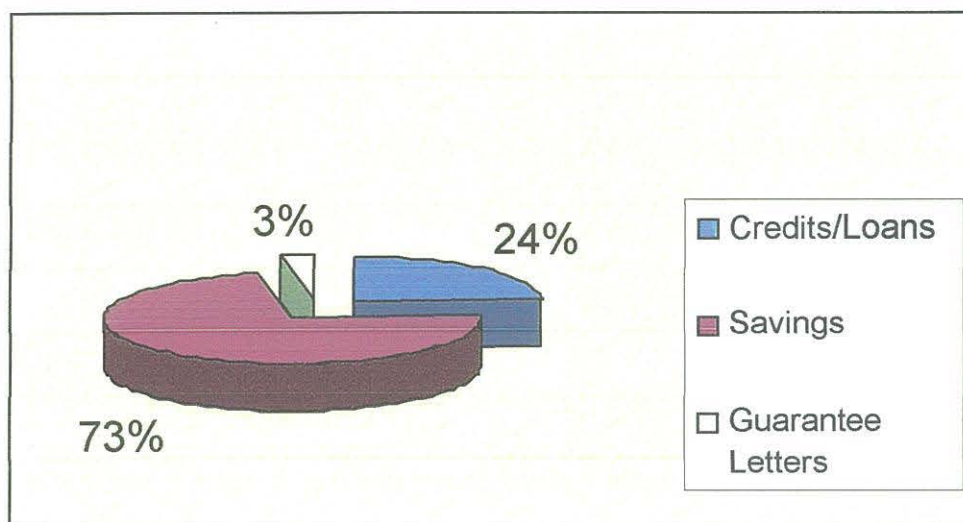
This chapter deals with the systematic presentation, and analysis of the results of the study. Note that the aim of the study is to establish the Effect of Microfinance Institutions on socio-economic development, using the case study of INKINGI S.A in Kicukiro district.

The presentation and analysis of the findings in this chapter are in accordance with the objectives set in chapter one. The investigation of products/services provided by INKINGI S.A, is followed by analysis of the contribution of products/services to socio-economic welfare of beneficiaries of INKINGI S.A and lastly, identification of the challenges faced by microfinance INKINGI S.A when offering its products/services.

4.1 Products/services offered by microfinance INKINGI S.A

According to the staff of Microfinance INKINGI S.A, three products/services are offered by this institution: savings, credits/loans and guarantee letters. These products can be represented as follows in terms of importance:

Figure 4.2 Products offered by microfinance INKINGI S.A



Source: Primary data

The chart above shows the types of products/services offered in terms of frequency where Savings occupies the first rank with 73 %, Credits/Loans 24 % and Letters of Guarantee 3 % at the end of year 2008. The management of INKINGI S.A confirmed that those are the only services/products offered to their clients. This has been confirmed by the information collected from clients, whereby the questionnaires distributed yielded the following information.

Table 4.3 Products/services received by clients of Microfinance INKINGI SA

Product/Services	Sample	Respondent	Percentage
Savings	130	102	78.5
Credits/loans	130	55	42.3
Guarantee letter	130	1	0.7
Others	130	0	0

Source: Primary data

The table 4.3 shows that on a sample of 130 clients, 78 % were going to INKINGI S.A for savings while 42.% were joining their microfinance institution for credits. Only one person went for a Guarantee Letter.

While microfinance institutions aim at providing a wide range of products/services to their clients (Conroy, 2003), INKINGI S.A has a limited number of products/services (loans/credits, savings and guarantee letters). The following services are absent in INKINGI S.A: insurance, pension (Rutherford, 1999), intermediation services such as group formation, training and management capabilities (Ledgerwood (1998). Microfinance INKINGI S.A needs to expand its services for an optimum satisfaction of its clients and to fulfill its mandate as a microfinance institution to poor people.

4.1.1 Demographic information of clients that receive microfinance services

The most important demographic analysis of clients to be analyzed includes gender, level of education, age and marital status.

Table 4.4: Gender status

Gender	Frequency	Percentage
Male	97	74.6
Female	33	25.7
Total	130	100.0

Source: Primary data

This table shows that the rate of participation of the women in microfinance services is lower (25 %) than men (74 %). While in Kicukiro district the number of women is bigger than men 51 % against 49 % (DDP-KICUKIRO, 2007:27) the number of women participating in business is still very low. Women are amongst the poorest and the most

vulnerable of the underprivileged and thus helping them should be a priority and microfinance is a suitable tool to do so (Holvoet (2005:29). Women need empowerment and any effort must be made to sensitize women at collaborating with MFIs so that they can be empowered. In an interview with the manager of INKINGI S.A, all clients are treated at the same level and no particular services are intended particularly for women.

Table 4.5: Age status

Age Bracket	Frequency	Percentage
15-30	11	8.5
31- 45	49	37.7
46-60	57	43.8
Over 60	13	10
TOTAL	130	100.0

Source: Primary data

The results presented in this table shows that respondents in the range of 15-30 years is 8%. This explains the lack of collateral and experience in self-employment. Most of them are singles and depend on their parents and have no collateral to submit to the microfinance. The age between 30-60 (that is 30-45 and 46-60) is made of active population with enough experience and who have already collateral to be given to the microfinance in order to obtain credit and other services. They have facilities to fulfill conditions set by microfinance institution to obtain credits and loans. As life expectancy in Rwanda is 49 years and Pension age 65 (DDP-KICUKIRO: 2006), people from the age above sixty years old are few clients of microfinance institutions because they are qualified inactive. They are approaching pension age and Microfinance INKINGI S.A is reluctant to offer them credits or loans. Microfinance Institutions set tough conditions to

this category to discourage them as they are deemed unproductive. While microfinance institutions are supposed to offer services to low income household with no requirement of collateral (Oyen and Levitsky, 1999), microfinance INKINGI S.A only offers credits/loans to those having collaterals and accurately non current assets (houses) and do not accept neither collateral substitutes nor group lending. This has been confirmed by INKINGI S.A's clients where 89 % of clients who obtained the credits/loaned possessed at least one bank account in a classical bank.

Table 4.6: Level of education

Level of education	Frequency	Percentage
Primary	84	64.6
Secondary	29	22.3
University	17	13.1
Total	130	100.0

Source: Primary data

This table compares the level of participation in microfinance to the level of education. The more people advance in high level of education, the more they move from microfinance to classical banks. This explains how microfinance institutions aim at assisting low class people out of poverty. Another thing is that those with only primary level (65 %) can survive if self-employed. Thus they resort to microfinance to get capital and start-up profit generating businesses. The only issue of Microfinance INKINGI S.A is that it does not offer opportunities to poor people with smart projects to access funds without collateral to implement their projects and pay back afterwards.

Table 4.7: Marital status

Marital Status	Frequency	Percentage
Single	17	13.0
Married	86	66.1
Widowed	21	16.2
Separated	6	4.7
Total	130	100.0

Source: Primary data

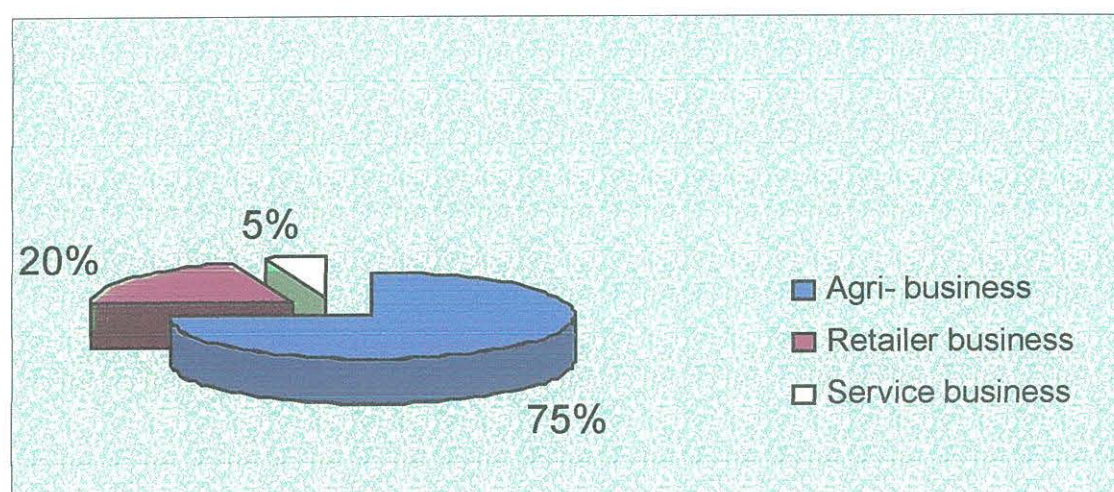
This table shows the rate of participation in Microfinance Institutions in terms of marital status. It is noticeable that married people occupy an important place in microfinance transactions with 66 % while widowed, single and separated occupy respectively 16 %, 13 % and 5 %. This means that microfinance deals mostly with active people. Married and Widows mostly have collateral and join Microfinance to obtain credit while those that are unmarried (dominantly youths) have not sufficient money to save in Microfinance Institutions. Out of 13 % of category of singles who have an account in Microfinance INKINGI SA, only 6 % of it has obtained a credit. Youth should be sensitized to join Microfinance Institutions as a powerful tool to access to credit and thus lead to employment creation (Balkenhol, 2006).

4.1.2 Types of businesses financed by Microfinance INKINGI S.A

The information collected from the manager and credit controller revealed that business presented by clients when applying for a loan/credit is in three categories: commerce, agriculture and service. These businesses are important in range of 75% for

Agribusiness, 20 % for Retailer business and 5% for service businesses according to the management of INKINGI S.A. This is illustrated with the chart below:

Figure 4.3 Types of business financed by INKINGI S.A



Source: Primary data

The information in the figure 4.3 has been compared with information collected from clients on area of investment of credits obtained from microfinance INKINGI S.A. Below are areas of investments declared by clients:

Table 4.8: Area of investment

Area of investment	N° Owner	Percentage %
Agribusiness	63	48.5
Retail business	59	45.4
Service business	5	3.8
Others	3	2.3
TOTAL	130	100

Source: Primary data

If we compare the information in the table above with information collected from INKINGI S.A staff on business financed and areas of investment, there is a mismatch. While agribusiness is financed at 75 % by microfinance INKINGI, only 48 % is injected in agribusiness. Retail business increases by 25 % and a new investment called others arises with 3 % in area of investment.

We notice that credits/loans offered by microfinance INKINGI SA are diverted to the other business not presented to the microfinance and clients do so to diversify risks. Some clients take credits to pay their old debts taken either from their friend or from other banks. This was confirmed by clients during our research where 2 % of respondents vowed to use credits in business other than those declared during credit/loan request while 98 % were honest to their promise. Those who divert the credits/loans to other businesses argue that Microfinance INKINGI S.A grants facility to agricultural projects (as a government policy) and prefer to present agribusiness projects. Therefore, agribusiness projects take long before profits are registered and they are not profitable enough to generate quick income and to pay back short term loans. Thus, clients divert money to retailer business where they can make more profit in short term and pay back the loans. According to Nagarajan (2001) Microfinance institutions should offer product flexibility and choice to clients with minimum procedures. Thus,

Microfinance INKINGI S.A should bring facility in financing any kind of business provided the clients prove their solvency. Yet, this situation calls for the need of a collective responsibility of the District officials and INKINGI S.A to train communities on the services provided by Microfinance INKINGI S.A

4.1.3 Suggestions of respondents on products/services delivery by INKINGI S.A

The researcher was interested in knowing whether the clients are satisfied with number of products/services obtained from Microfinance INKINGI S.A. The information collected is summarized in the following table:

Table 4.9: Level of satisfaction with products/services offered

Satisfaction	Frequency	Percentage
High satisfaction	40	30.7
Medium satisfaction	31	23.8
Low satisfaction	48	37.0
Dissatisfaction	11	8.5
TOTAL	130	100

Source: Primary data

This table shows the level of satisfaction of clients of INKINGI SA on services provided. 31 % expressed a high satisfaction, 24 % a medium satisfaction while 37% had a low satisfaction and 8 % were totally dissatisfied. It has been noticed that a group with a high and medium satisfaction is made of those who already benefited from loans and those who mainly make savings/withdrawal. Therefore, the Microfinance institution should not neglect a great number of clients with low (37 %) or without satisfaction (8%) who claims for more services by the microfinance INKINGI S.A. Among services requested include: money transfer, use of ATM, training and insurance. Other claims include the lack of networking technology of the branch which would enable a client to access his current account anywhere via branches or ATM.

4.2 Contribution of MFIs on socio-economic development of KICUKIRO district.

As discussed before, Microfinance Institutions aim at improving socio-economic conditions of beneficiaries of its products/services who are actually poor or with little income. In order to examine the contribution of microfinance institutions on socio-economic development of its beneficiaries, it is necessary to compare the situation of its clients before and after joining INKINGI SA in terms of monthly income.

4.2.1 Income Growth

According to FIDA (2006) to understand the process by which socio-economic objectives are achieved the researcher need to enquire whether the business expands or income increases or if skills develop. Note that only those clients who have been with INKINGI S.A for at least one year were allowed to participate in this study.

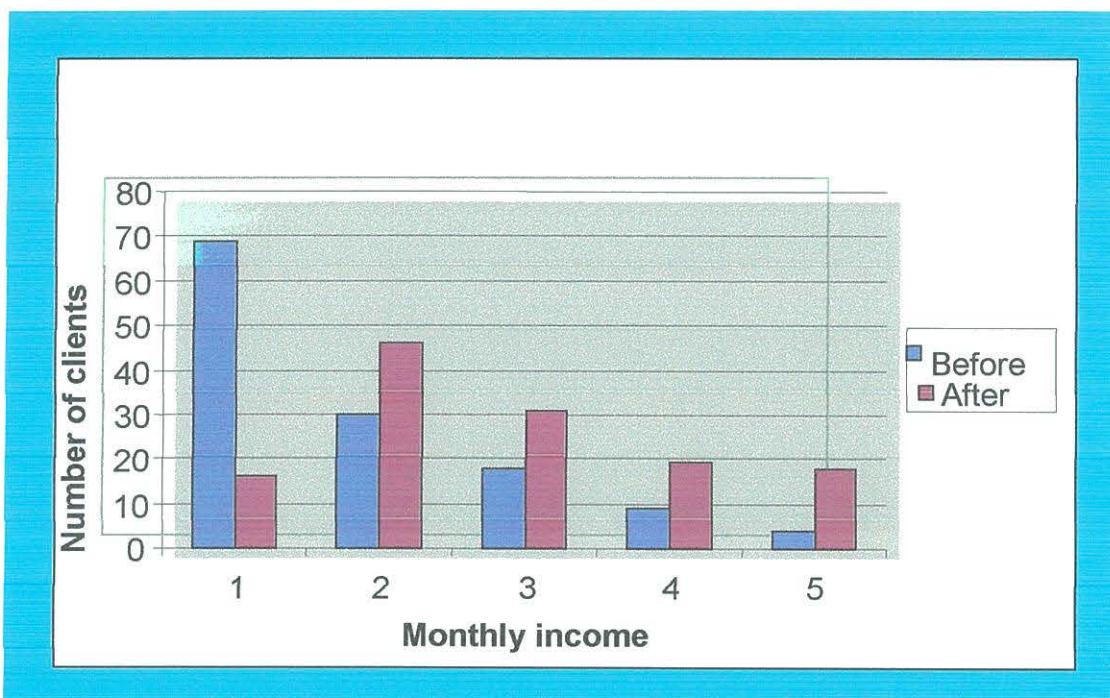
Table 4.10 Income growth of INKINGI S.A clients

Income range (RWF)	Before joining INKINGI		After joining INKINGI SA	
	Frequency	Percentage	Frequency	Percentage
0-30,000	69	53.1	16	12.3
30,001-60,000	30	23.1	46	35.4
60,001-90,000	18	13.8	31	23.8
90,001-120,000	9	6.9	19	14.6
120,001 and above	4	3.1	18	13.9
Total	130	100	130	100.0

Source: Primary data.

This table shows a significant improvement of income of clients of Microfinance INKINGI S.A after joining it. The percentage of people with monthly income range of RWF 0-30,000 has decreased from 53 % before joining INKINGI S.A to 12 % after joining the same Microfinance Institution, while the percentage of people with monthly income range of over RWF 120,000 has increased from 3 % before joining INKINGI S.A to 14 % after joining the same Microfinance Institution. The information above can also be understood on the chart below:

Figure 4.4: Chart of income growth of INKINGI Clients



1= 0-30,000 3= 90,001-120,000 5= Above 120,000

2= 30,001-60,000 4= 90,001-120,000

Before joining microfinance INKINGI S.A, clients with income ranging from 0-30,000 were 53 % and after joining became 12 %. This means that as clients who utilize microfinance products/services increase their income, they step up from inferior category to upper category.

4.2.2 Other achievements due to MFIs products/services by clients

The researcher was interested to know other things clients could acquire as a result of their transactions with microfinance INKING S.A and have yield the following data:

Table 4.11: Achievements offered due to INKINGI influence

Things achieved thanks to INKINGI products/services	Respondents	%
Education	87	66.9
Employment	121	93.0
Medical insurance (Health care)	105	80.8
Food security	119	91.5
Empowerment	73	56.1
Improvement of living standards	104	80.0
Others	86	66.1

Source: Primary data

The table above indicates that Microfinance institutions have contributed to the improvement of education at 67 %, Employment creation at 93 %, Medical insurance 81 %, Food security at 92 %, Empowerment at 56 %, improvement of living standard and others at 66 %

The pattern shown in the above table implies that people joining microfinance are able to acquire basic needs using microfinance services particularly savings and credits. As they make saving they can gather a huge some of money for investment and or if having collateral they can obtain credits/loans for their investment. Saving helped people taking medical insurance (Mutuelle de Santé), payment of school fees for their children, increase the number of meals to three per day and acquire more property and equipments needed

in their daily life. This is in compliance with Lapenu & Greeley (2003) theory that the outcome measurements of socio-economic performance with respect to microfinance include among other things employment creation, empowerment, health improvement and education. Also Hechler-Fayd'herbe (2009) found out that socio-economic role of microfinance can be assessed using a variety of common and well-established indicators, including education, number of children in school, diet: number of meals eaten per day and household assets. However the table shows that microfinance INKINGI has improved and contributed a lot in improvement of socio-economic development of its beneficiaries, particularly of Kicukiro district.

4.2.3 Contribution of INKINGI S.A in overall development of Kicukiro district

In order to assess the effect of microfinance institutions on socio-economic development of Kicukiro, the researcher interviewed the key staffs in planning and development & socio-affairs departments of Kicukiro district. The purpose was to examine how microfinance INKINGI S.A has contributed to their socio-economic indicators. Data found on district are presented in the table below:

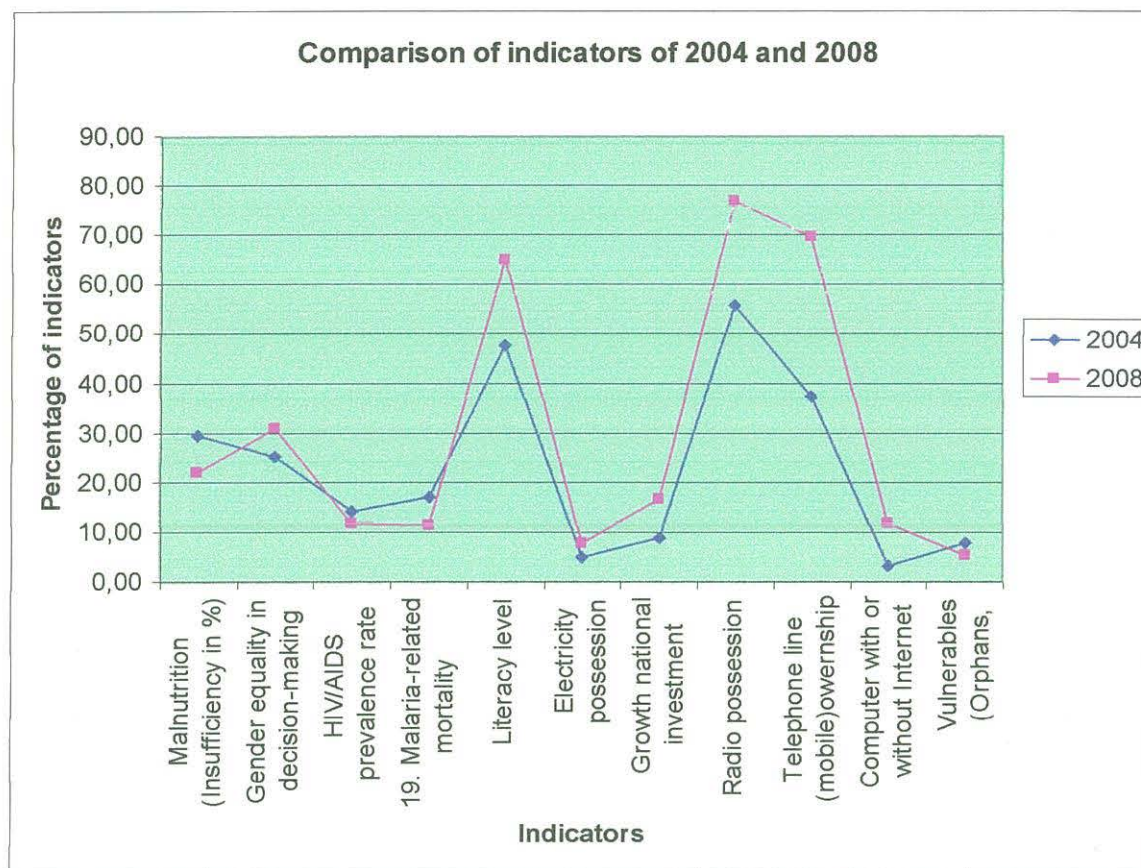
Table 4.12 Contribution of INKINGI S.A in Kicukiro district

N°	Indicators	2004	2008
1	Malnutrition (Insufficiency in %)	29.6%	21.9%
2	Gender equality in decision-making	25.4%	31.1 %
3	HIV/AIDS prevalence rate	14,3%	11.8 %
4	Malaria-related mortality	17%	11 %
5	Literacy level	47,6%	65,2%
6	Electricity possession	5%	8 %
7	Growth in national investment	9,0%	16,7 %
8	Possession of radio	56%	77 %
9	Possession of telephone line	37,5%	69.9 %

10	Possession of computer	3,2%	11,7%
11	Vulnerables (Orphans, Widows, Indigents)	7,8%	5.5 %

Source: Kicukiro District, 2008

Figure 4.5 Comparison of indicators of 2004 and 2008



Source: Secondary data.

The chart above indicates that there was a general improvement of socio-economic indicators of Kicukiro district. In an interview, Kicukiro staff declared that they collect monthly reports from microfinance institutions operating in Kicukiro district including INKINGI S.A and from each Executive secretary of Sectors of Kicukiro provide a monthly report on socio-economic conditions of their population. All statistics received previously from both INKINGI S.A and Sectors show that there is a great improvement of socio-economic conditions of the population. Using credits/loans and savings from

INKINGI S.A, people were able to send their children to school and the literacy level has increased from 48 % in 2004 to 65 % in 2008, malnutrition insufficiency has fallen from 29 % in 2004 to 22 %, possession of mobile phone increased from 37 % in 2004 to 70 % in 2008 and other socio-economic indicators have improved in general.

Kicukiro district officials declared that they organize sensitization campaign of benefits of microfinance as a safety place for saving and only means to obtain credits. Since campaigns started in 2005 there was a tremendous improvement of socio-economic indicators of the district of Kicukiro.

4.3 Challenges faced by INKINGI S.A in offering products/services.

Challenges were identified from both microfinance INKINGI S.A and its customers regarding the service delivery.

4.3.1 Challenges expressed by the management of INKINGI S.A

The management of INKINGI S.A said that the government encourages them to give loans in agribusiness sector and this money is diverted to other activities because of low income generating capacity of this sector. Clients lack basic training on how to manage their business. Therefore, the government has promised to do so and INKINGI S.A is limited to offering credits and saving and Guarantee Letter as instructed by the government. Interest rate policy is not fully liberalized and it is set by the government through regulations of microfinance. This limits profits and expansion of more services. Yet, because of the downturn of 2006 in microfinance industry in Rwanda, the government has instructed to request non-current assets, mainly houses, when offering credits to avoid further downturns. This decision limits a number of people who access to credit especially very poor.

More challenges expressed by microfinance staff include lack of technology: the services are manually offered and this makes the service very slow.

4.3.2 Challenges identified from beneficiaries of INKINGI S.A services.

The challenges expressed by respondents in their business relation with INKINGI S.A are presented in the following table:

Table 4.13: Challenges identified by users of INKINGI S.A's products/services

Challenges	Frequency	Percentage
Lack of collaterals or Heavy collaterals	84	64.6
High interest rate	55	42.3
Lack of training in business management	72	55.4
Slow service delivery	93	71.5
Short term period of reimbursement	77	59.2
Others	46	35.3
Total	130	100.0

Source: Primary data

From this table we notice that the greatest challenges include slow service delivery with 72 %, lack of collateral or heavy collateral with 65 %, short term period of reimbursement with 59 %, lack of training in business management 55 % and government policies in constant changes.

The lack of collateral or heavy collateral is a big challenges to clients of INKINGI S.A because this microfinance only accepts house or other non current assets which are unaffordable by every client. This is a regulation set by the government to encourage people form cooperatives and associations if they need to obtain financial support. This

is in contradiction with Conroy (2003) who argue that microfinance are intended to provide collateral free loans.

Short-term period of reimbursement. Microfinance INKINGI S.A gives loans not exceeding 6 months for Retail businesses and services and 1 year for agribusiness. As a consequence, most of the time, the reimbursement period expires before repayment of entire credit/loans.

The interest rate in microfinance INKINGI S.A is very high: 2% - 8% a month, whereby the rate is 8 % in Retail business, 5 % in Housing, 3% in School fees and 2 % in agribusiness. The rate in agribusiness is very low compared to other business sectors. In contradiction, Chua et al (2000) argue that Agriculture is a risky business since there are a lot of exogenous variables that determine the outcome. This will induce them to set an interest rate at a high level to compensate for the risk of not knowing which investment that is “risky” and which that is “safe”. Therefore, the government set low rate to promote agricultural sector in Rwanda. Unfortunately, most of agricultural credits are invested in retailer businesses or other services.

In general, interest rates are higher in microfinance institutions commensurate with the income generating capacity of the business invested in.

Regulation and supervision of microfinance institutions limit their management autonomy. In this case microfinance institutions follow government policies more than listening and responding to the needs of their clients. This situation is in line with Staschen (1999) who argues that regulations by means of a special law for Microfinance are in danger of stifling institutional variety and innovation in microfinance.

Other challenges include the lack of adequate information about the market situation, that is, available stock supply prices and taxes. There is no information database that gives a breakdown of specific activities undertaken by different microfinance institutions in the area. Book keeping is a challenge to clients as they do not keep any books of account which makes it difficult to assess whether their activities are making profits or not. Finally, most of activities are undertaken without specialized training in the area. Many of the respondents do so using the traditional methods learned from childhood. Microfinance clients do not supply technical support in various disciplines to organize training in marketing, business administration and management. This situation is also worse by a high rate of illiteracy among clients.

4.3.3 Mechanisms used by microfinance to overcome challenges

The management of Microfinance INKINGI S.A has precautions to overcome challenges in providing their products/services with maximum survival. The high rate on different loans/credits covers eventual risks due to defaulters. High collateral imposed on loan/credit request is a guarantee that can be sold in case of insolvency of creditors. The government provides guarantee funds for agricultural loans. This is the reason why the rate for agricultural credits is low (2%) in comparison with the rates applied to others types of businesses.

While Morduch and Armendariz (2005) suggest group lending, dynamic incentive, social programs, training and collateral substitute as a way to minimize risks of non payment, microfinance is secured by heavy collateral. Women are treated at the same level as men

and don't benefit any particular advantages in their business relations with microfinance INKINGI S.A.

4.4 Summary

This chapter was all about the presentation of the findings. Products/services offered by microfinance INKINGI S.A include savings, credit/loans and guarantee letters. Microfinance INKINGI S.A has contributed in socio-economic development by increasing income growth and enabling other achievements to its clients; and contributed to the overall socio-economic development of Kicukiro district. Challenges faced by INKINGI S.A were presented from both sides of INKINGI S.A management and the clients. The next chapter presents the discussions, draws conclusions and makes recommendations from the study.

CHAPTER FIVE

DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.0 Overview

Throughout the study, emphasis was put on effect of microfinance institutions on socio-economic development with a case study of INKINGI S.A in Kicukiro district. In this chapter, the discussion of the findings, general conclusions and recommendations are given. In addition, the chapter suggests areas for future researches.

5.1 Discussion of the Findings

The findings indicate that Microfinance INKINGI SA has a limited number of products/services delivered to its clients as shown in table 4.3 where only saving, credit and guarantee letters for entrepreneurs are offered. An important number of clients (45 % in table 4.9) expressed concerns about a limited number of service and suggested additional services which may comprise money transfer, ATM service, training and insurance.

The products/services of INKINGI S.A are utilized to invest in income generating activities of different areas of business: agribusiness, retailer business and services business as in table 4.8. It has been discovered that some clients divert their loans to projects other than those agreed on when requesting for credit. This is justified by 2 % appeared in table 4.8 as others businesses. Microfinance INKINGI S.A should install mechanisms of follow up to make sure the loans/credits they offer are used in the right projects.

The researcher found that the number of women in INKINGI S.A is little compared to number of women in Kicukiro district as discussed under table 4.4. While (Holvoet, 2005) argued that women are amongst the poorest and the most vulnerable of the underprivileged and thus helping them should be a priority and microfinance is a suitable tool to do so. Consequently, there is no particular treatment of women when offering product and services and this has been confirmed by the manager of INKINGI S.A during interview. Thus, women need empowerment and INKINGI S.A should be doing so.

Businesses invested in have increased income of beneficiaries as shown in table 4.10 and figure 4.4 which show that as people work with their microfinance, the income range grows up. With income from transactions with INKINGI S.A, clients were able to achieve new things: employment, medical insurance (health care), food security, improvement of living standards as found in table 4.11. This has greatly contributed to the improvement of their socio-economic conditions. Products and services offered by Microfinance INKINGI S.A have also contributed to the improvement of socio-economic indicators of Kicukiro district as shown in table 4.12 and in figure 4.5 during the period of 2004 and 2008. The district officials have confirmed it in an interview.

Microfinance INKINGI S.A has challenges in offering products/services to its clients. As found in an interview with the management of INKINGI S.A, the intervention of Government in supervision and regulation of microfinance resulted in setting policies and instructions on Microfinance Institutions: (products/services to be offered, interest rates policy, collateral policy, priority sectors to invest among others. As a result the

microfinance sector is not fully liberalized which hinder the development of new products/services and profit. This is in line with arguments by EIU (2009) that some factors which hinder the microfinance development among the states include regulatory framework (Regulation of MFis operations) and institutional development (range of microfinance services). The researcher realizes that Microfinance Institutions in Rwanda have no freedom of innovation; on the contrary they are more attached to regulations than concern about satisfaction of the needs of its clients and its potential customers (especially poor people).

Clients have also challenges in consumption of products/services offered by INKINGI S.A. In fact, the table 4.13 points out lack of collateral or heavy collateral, high interest rate, lack of management in business, slow service delivery, short period of reimbursement and others. However, some challenges are common on the side of clients and microfinance INKINGI S.A itself: slow service and heavy collateral. The slow service is due to poor technology (manual service) while heavy collaterals and high interest rate are due to regulation of microfinance industry in Rwanda by National Bank of Rwanda which set different policies impeding business freedom.

While Morduch and Armendariz (2005) say that group lending, dynamic incentive, social programs, training and collateral substitute are a way to minimize risks of non payment, microfinance institutions in Rwanda is secured by heavy collateral imposed on loans/credits and high interest rates which impede the outreach of microfinance to very poor people.

5.2 Conclusion

The purpose of the study was to establish the effect of microfinance institutions on socio-economic development, a case study of INKINGI S.A in Kicukiro district.

The objectives of the study were to investigate the products/services offered by Microfinance INKINGI S.A; to find out the effect of products/services offered on socio-economic welfare of beneficiaries and to identify challenges faced by microfinance INKINGI S.A in offering its products/services.

Researcher found that microfinance INKINGI S.A provides a limited number of products/service mainly savings and credits. Clients use these products/services to invest in different areas of business (agri-business, retailer business, and service business) and make profits. Moreover, incomes obtained help in achieving things that improve their socio-economic conditions. Among achievements include education, medical insurance, food security, and general improvement of living standards.

Microfinance INKINGI S.A has played a significant role in improvement of socio-economic indicators of district of Kicukiro over the past four years.

In spite of its significant effect in socio-economic development, microfinance INKINGI SA faces challenges in products/services delivery among others due to lack of technology in its daily operations, regulation and supervision policies which limits its freedom in fixing interests rate and the development of new products requested for by its clients and customers. Besides, clients of microfinance INKINGI S.A complain about valuable collaterals requested when applying for credit/loans, a short period of reimbursement of loans/credits, lack of training in business management and slow services due to lack technology and long procedures.

5.3 Recommendations

Based on the findings on the effect of microfinance institutions on socio-economic development with a case study of Microfinance INKINGI S.A in Kicukiro district, the researcher recommends the following

- a) The government should formulate policies towards Microfinance Institutions that aim at facilitating outreach of microfinance products/services to the poorest people. This can be done by revising interests rates down and assist Microfinance Institutions in giving credits without collateral or with affordable collaterals by poor who do not have non current assets (like house) as collateral. The government if wants poor people access credits/loans could put in place a guarantee funds for very poor people with smart projects but without collaterals.
- b) Microfinance INKINGI S.A should extend its product/services to training, money transfer, ATM services, group formations, insurance and pension.
- c) A technical team should be put in place by INKINGI SA to follow up investment of the loans/credits offered to ensure efficiency in use and avoid diversion of funds in projects other than declared when requesting for credits/loans. Moreover, training in business management should be organized to its customers.
- d) Among mandate of microfinance institutions include empowerment of women in society. Microfinance INKINGI S.A should undertake actions that favor the empowerment of women. This can be done by offering them special training and credits/loans at reduced interest rates.

- e) Microfinance INKINGI S.A should revise its overall procedures when offering its products to quicken service to its clients and recruit qualified and experienced staff since its actual staff have no much experience.
- f) Youth should be sensitized to join Microfinance Institutions as a powerful tool to access to credit and thus lead to employment creation.
- g) Microfinance INKINGI S.A should offer product flexibility and choice to clients with minimum procedures. It should bring facility in financing any kind of business provided the clients prove their solvency. Yet, this situation justifies the need of training among services provided to his clients.
- h) Microfinance INKINGI S.A should install mechanisms of follow up loans to make sure the loans they offer are used in the right projects

5.4 Areas of Further Research

Using different methods of data collection, a similar study could be conducted in other Microfinance institutions to find out their effect on socio-economic development of administrative entities they are located in order to come up with similar conclusions and recommendations. In order to complete my work, other researchers might investigate on “The effect of government policies on microfinance performance”.

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APPENDICES

Appendix A: Questionnaires

Questionnaire to clients of microfinance Inkingi S.A

I am called TWAGIZIHIRWE Valence, a student at Kampala International University and am carrying out a research study on “Contribution of microfinance on socio-economic development. Case study of INKINGI in Kicukiro district. You have been selected to participate in this study and therefore kindly requested to fill/answer the questions below. The information given here will be only used confidentially for academic purposes. Thanks for your time and contribution.

Profile of Respondent

1. Gender: Male Female

2. High level of education

None

Primary

Secondary

High School

3. Age: 15- 30

31- 45

46-60

Above 60

4. Marital status : Single
 Married
 Widowed
 Separated
 Separated

Section1. Products offered by Microfinance INKINGI S.A

5. For how long have you been a client of Microfinance INKINGI S.A?

Below One year One year and above

6. What products/services do you receive in Microfinace INKINGI S.A?

Products/Services: Credit/loan
 Saving
 Insurance
 Training
 Others Specify:.....

7. Do you have any other bank account in commercial bank? Yes No

8. Have you obtained a credit from microfinance INKINGI SA?

9. Do you invest you r loan 100 % in the project agreed with your microfinance?

Yes No If no why:

.....

10. In which type of business have you invested in?

Agri-business Retail business Services Others

11. Have you made profits since you started your business?

Yes No

If no, Explain.....

12. What is your level of satisfaction with products/services offered to you?

High satisfaction

Medium satisfaction

Low satisfaction

Dissatisfaction

Section 2: Contribution of products/Services on Socio-economic welfare of clients.

13. What was your monthly income in RWF before transacting with INKINGI

Microfinance?

0- 30,000 90,001-120,000

30,001 – 60,000 Above 120,001

60,001 – 90,000

14. What was your monthly income in RWF after transacting with INKINGI

Microfinance?

0- 30,000	<input type="text"/>	90,001-120,000	<input type="text"/>
30,001 – 60,000	<input type="text"/>	Above 120,001	<input type="text"/>
60,001 – 90,000	<input type="text"/>		

15. What important thing have you acquired that you could not afford before joining microfinance INKINGI SA?

Education	<input type="text"/>
Employment	<input type="text"/>
Medical insurance	<input type="text"/>
Food security	<input type="text"/>
Empowerment	<input type="text"/>
Others	<input type="text"/> Specify

Section 3: Identification of challenges faced by clients of INKINGI S.A

12. What problems do you face in your transactions with Microfinance INKINGI S.A?

- Delay in responding to credit demands
- Lack of training in utilization of credit and running of businesses
- Heavy collaterals
- High interest rate
- Short term period of reimbursement
- Others (Specify.....)

Interview guide with staff of INKINGI S.A

Identification of employee

Age:

Level of Education:

Years spent in INKING S.A:

Post occupied:

Section 1: Types of products/service offered to clients

1. What types of products/Services do you offer to your clients?

Credit/Loan	<input type="text"/>
Insurance	<input type="text"/>
Saving	<input type="text"/>
Training	<input type="text"/>
Group formation	<input type="text"/>
Insurance	<input type="text"/>
Others	<input type="text"/> Specify

2. Do you think services offered to your clients are satisfactory or enough? If Not which others do you intend to introduce?

3. Do you provide particular product/services to women for their empowerment?

4. Which type of business have you financed so far?

Agri-business Retail business Services Others

5. Do you think the clients use your products/services in projected presented?

Yes No

6. Do you provide training to your clients in management and how your products/services can benefit to them?

Section 2: Contribution of products/Services of INKINGI on socio-economic development of clients

7. What testimony do you have on contribution of your products on improvement of socio-economic conditions of your clients?

8. What are conditions to obtain credit/loan in your microfinance institution?

9. Do your clients pay back the loan/credits you offer to them?

Section 3: Identification of challenges faced by INKINGI S.A in offering services

10. What challenges do you face in offering your products to your customers?

11. How does supervision and regulations of microfinance institutions by National Bank of Rwanda affect your business?

12. What are other internal or external challenge do you face in your daily activities?

Section4: Identification of the role of INKINGI SA in development of KICUKIRO district

10. What is your role in socio-economic development of the population of Kicukiro District?

Questions to the staff of Kicukiro District

1. Position:

2. Department:

3. Period spent in organization:

4. Sex: M F

5. Highest level of education

a) None

b) Primary

c) Secondary

d) High School

Section1: Product offered by microfinance INKINGI SA

6. What are the instruments do you use to measure the role of microfinance institutions on socio-economic development of your District?

7. What could be the role played by Microfinance INKINGI SA in socio-economic conditions of your population?

Appendix B: Letter of introduction

**KAMPALA
INTERNATIONAL UNIVERSITY**

P.O.BOX 20000
KAMPALA-UGANDA.
TEL:-041-266813

**OFFICE OF THE DEPUTY DIRECTOR
SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH**

October 19, 2009

Dear Sir/Madam,

RE: INTRODUCTION OF TWAGIZHIRWE VALENCE'

This is to inform you that the above named is our registered student (MBA/10009/81/DF) in the School of Postgraduate Studies pursuing a Master of Business Administration (MBA).

He is interested in carrying out the research in your organization entitled "**Microfinance Institutions on Socio Economic Development: A case Study of Inkingi S .A in Kicukiro District**".

Any assistance rendered to him regarding his research, will be highly appreciated.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Kepha Natolooka', is written over a circular official stamp. The stamp contains the text 'KAMPALA INTERNATIONAL UNIVERSITY' and 'SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH' around the perimeter.

Dr. Kepha Natolooka

DEPUTY DIRECTOR-SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH

Appendix C: Permission for Research

REPUBLIC OF RWANDA

Kicukiro, date. 30/10/09

Ref N° 2480 /07.0103.10/09


**KIGALI CITY
KICUKIRO DISTRICT****Mr TWAGIZHIRWE Valence**
Student at Kampala International University
RWANDA**Subject:** Permission for Research

Dear Sir,

With reference to your letter dated **October 26th 2009** which was requesting for permission to carry out a research in our District;

I am happy to inform you that you have been granted the permission. Upon your arrival you will be directed as to which department you will be attached too that is relevant to your research.

Sincerely


Paul Jules NDAMAGE
Mayor of Kicukiro District**C.C**

- ❖ Executive Secretary of Kicukiro District
- ❖ Human Resources Director

KICUKIRO

Appendix D: Validity Calculation.**A) Validity of Instruments**

Number of judges: 4

Number of judges declared items valid: 3

$$\text{Content Validity Index (CVI): } \frac{\text{Number of judges declared items valid}}{\text{Total number of judges.}} = \frac{3}{4} = 0.75$$

Standard Validity Index is > 0.7

If we compare CVI to SVI we obtain $0.75 > 0.7$

Conclusion: Instruments are valid.