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Rural Banking and Rural Development – A Case Study of Developing Countries with Special Reference to Rwanda

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Abstract

This paper focuses on the importance of Rural Banking and Rural Areas and their implications. The article defines Rural Livelihood as an occupation, as source of income and livelihood in the rural areas that include agricultural work and other allied rural employment such as labor, home industry, etc. The study has examined the economic conditions in developing countries, thus will determine the Status of a country's financial position at a specific period of time. Economic condition is used for statistics and it involves unemployment rates, stock market data, and GDP information, among other metrics. Statistics changes over time in line with the economic and business cycle, as an economy goes through expansion and contraction. The study tries to determine the number of borrowers with poverty alleviation objectives in the area; assess the extent of awareness and participation of rural people in microfinance activity, and examine the impact of the cooperative on farmers' income, farm size, production and productivity. The main purpose of the Rural Bank is to provide banking and credit facilities to the rural people. The regional Rural Banks have been conceived as: (a) an answer to meet the diverse and heterogeneous needs of rural people with different socio-economic and agro- geographical conditions, (b) designed to specific economic and occupational groups, i.e., the small and marginal farmers, agriculture labourers, artisans etc. and (c) to be a catalytic agent to develop the rural economy by providing not only credit but also other facilities.

Key words: Rwanda, Rural Banking, Rural Development, Developing countries economic programmes

1. Introduction

Development is a continuous process, which brings quantitative and qualitative changes in a particular area. Prevailing conditions of living standards are improved through these changes. Efforts are made to improve standards of living. Development includes all spheres of human life i.e., economic, social, political, cultural, environmental, technical etc. Hence, development is concerned with exhaustive development of human life. We can draw the conclusion that rural development is a strategy by which more employment opportunities are created in rural areas and efforts are made to increase the level of income and thereby raising the standards of living of rural masses. Rural development is economic activities or initiatives that are designed to improve the living standards in areas far away from large towns or cities. It improves the quality of life of rural people. Rural development is defined as the process of improving the quality of life and economic well-being of people living in rural areas. The primary objective of rural development is to reduce rural poverty. Targeting rural poverty reduction also means focusing on strengthening social cohesion and reducing inequality. Poverty reduction is a complex process and many factors will determine whether economic growth is associated with poverty reduction, such as the initial level of inequality, the composition of growth and how inequality changes over the period of growth. Given Rwanda's geographical and demographic composition, sustained economic growth requires large gains in poverty reduction and vice versa.

Rural Development emphasizes the foundations and linkages of rural growth and the coordination between sectors such as land, infrastructure, agriculture and rural finance, while at the same time understanding the need for broader urban and rural linkages**.** Rural development is not merely development of rural areas but also the development of the rural peoples into self-reliant and self-sustaining modern little communities. Rural development is, therefore the development of rural areas in such a way that` each component of rural life changes in a desired direction and in sympathy the other components (National Bank of Rwanda, 1978. The concept of Rural Banking is now seen as a potential global solution to push financial literacy across the rural and poor communities around the world. Rural banking attempts to offer all the basic banking services that people living in rural areas need. Cash deposits are one of the most common services, since these occur on a regular basis and must often be done in person. Loan and loan repayment services are also offered for those who cannot make their payments in any other way. The rural banking plays an important role in the development of a country. A sound, progressive and dynamic banking system is a fundamental requirement for rural development. The rural banks render vital services to the rural masses belonging to various sectors of economy like agriculture, industry whether small scale or large scale and also to the tertiary sector that is the service sector. The rural banks are expected to help the government in its pursuit of building up an egalitarian society with a rising standard of living by designing their lending policies accordingly. The specific role of banks in economic development varies, depending on scope. Primarily, the participation of banks in economic development focus around providing credit and services to generate revenues, which are then invested back into a local, national, or international community.

The specific roles banks play in the economic development of a small community differ from the role banks play in national or international economic development. Although the role can vary, factors such as access to credit and bank investment policies or practices remain constant, no matter the scope of economic development. A financial intermediaries, banks play vital role in the operations of most economies, savings, mobilizations by a financial institutions is a particularly important "As more than 60 per cent of people in African countries live in rural areas with low income and the roles of microfinance - and savings mobilization institutions are indispensable". Taking into consideration the socioeconomic environment of Rwanda, the banks are not expected to be inclined towards the already developed sector but towards the underdeveloped.

In Africa, rural areas suffer from financial exclusion. This is vindicated by very little or non-existence of rural banking facilities. For sub-Saharan Africa, about 70% of the population lives in rural areas and the majority are poor. Robinson (2001) and Vincent (2004) note that about 90 percent of the population in developing economies lack access to financial services from formal financial institutions. Commercial banks continue to shun rural areas, preferring urban areas, and this constrains efforts to bring the poor and marginalized into the mainstream economy. Apparently, traditional banks shun establishing branches in rural areas because of high information, transaction and monitoring cost, inaccessibility due to poor infrastructure, dispersed and intermittent demand for financial services, seasonality deposits and lack of collateral. With this backdrop, rural underdevelopment remains a painful challenge in the developing economy. The rural areas remain excluded from participating in the mainstream of the economy; their inability to mobilize cheap financial resources makes it difficult for them to improve their livelihoods (Adams et al. 1984; Chen and Ravallion 2007; Matunhu 2012).

In Rwanda, for example, Development Bank of Rwanda (BRD) seems to be the only hope in injects strength and accelerates the growth of rural economy and ensures the development of rural areas. Rural development in Rwanda is recognized as sine qua non for faster economic development and welfare of common masses. Rwanda economy is expecting to grow by 7-8 percent in 2012 driven mainly by both an expanding industrial base and good crop yield. The economy had been bolstered by a booming agriculture sector, which constitutes around 38 percent of the economy, and public investment would help maintain growth momentum. The government has focused on restricting the tea and coffee sectors and financial system, while investing in energy, transport and telecommunications infrastructure. Also attributed to good performance in the agricultural sector are the on-going programmes on crop intensification, land consolidation, fertilizer application introduction of good variety of seeds is proof better result ahead. In order to provide a significant contribution to the economy of a country, the bank has to remain strong in its potential growth and profitability, so that, it can support sustainable development while maintaining its services to the community. The several characteristics of low income countries have followed Savings and Credit Cooperatives (SACCO) model for mobilizing savings and encourage saving habits of people. It is important to emphasize that SAACOs are normally established on a voluntary basis. During the last 5 years, BRD has injected in the Rwandan economy an average amount of Rwf 18.5 Billion per year. Since BRD is committed to pursuing the broad poverty reduction agenda set out in its vision, recognizing the allocation of its scarce human and financial resources through greater selectivity of investment within priority sectors which do not attract investment from other financial institutions, the Bank's available lending resources will therefore be sharply focused on those interventions and areas of development where Bank assistance can have the greatest development impact**.** Development Bank of Rwanda is the Government of Rwanda's investment arm that finances the nation's development objectives with a focus on the priority sectors of the economy. Compared to other financial institutions of the country, BRD ranks the first in financing such investments. In fact, it regularly finances more than 80% of investments in the primary and secondary sectors.

2. Status of Rural Livelihood in Developing Countries

Over the last decade several donors and NGOs have adopted a livelihoods approach to development. More recently, there have also been efforts to approach socio-economic development through the framework of human rights. Rural development should be central to poverty reduction. However, rural development faces a loss of confidence: funding has been falling, and governments and donors are scrambling to rethink policy. Soil conservation and land management is by now an established component in rural development, but interventions have met with considerable challenges. The view of rural people in this context has varied between conservationist, producer, and land manager. Rural livelihood is occupation as source of income and livelihood in the rural areas that include agricultural work and other allied rural employment such as labor, home industry etc. A livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living. The study assesses the capital endowments and production activities of households which interact to determine the well-being of households as followed: Capital assets, Production and income, Drivers of change, and Poverty. The study states that with respect to human capital, labor is generally fully utilized, without major underutilization even in the dry season. A major determinant of dry land crop production income is cattle numbers, as these provide inputs into cropping (manure and draft), but access to non-farm cash income also improves crop income, as it is a major source of cash to purchase inputs. Most households rely on income (cash and subsistence) from a number of sources, including dry land crop production, gardening, livestock production, woodland activities, wages or home industries and remittances/gifts. There are a wide variety of crops and vegetables, and livestock have multiple functions. Elements of change can be identified in numerous aspects of capital assets and livelihood strategies. There are some key drivers of change, namely: (a) rainfall, (b) macro-economic changes, (c) changing institutional arrangements and social processes, and (d) demographic processes and HIV/ AIDS. Rainfall is a primary driver of change, altering crop production from year to year and causing massive longer-term fluctuations in livestock numbers, in particular cattle Households are unable to raise sufficient grain for their subsistence needs in one out of three years.

Rural poverty in semi-arid regions is a result of a combination of interacting social, economic and environmental factors and processes operating at a range of scales. Some of these are: (i) adverse biophysical conditions, resulting in, among other things, low agricultural potential and disastrous crashes in livestock numbers; (ii) insufficient high quality land, which is a result of colonial land-allocation patterns; (iii) labor scarcities, even more so in the face of the HIV/AIDS pandemic; (iv) economic remoteness, with presumably higher transaction and input costs, and few investments because returns to investments are low compared to other places; (v) lack of credit markets as a result of little or no collateral; (vi) few employment opportunities and low levels of education and skill; (vii) low cash incomes and hence an inability to purchase some basic needs (e.g., medicines, secondary school education); (viii) poor macro-economic conditions; (ix) the HIV/AIDS pandemic, resulting in the loss of breadwinners, labor scarcities and increased costs; (x) low levels of empowerment; and (xi) declining woodland resources leading to the need for greater investments (e.g., labor) to acquire basic products. The multi-faceted nature of poverty indicates that there can be no silver bullet to rural development, and that an integrated, multi-sectorial approach to development is critical, with different but complementary activities across a wide range of sectors.

To conclude this section, Livelihood approaches have considerable potential for improving the focus of programmes and policies and the overall strategic coherence of interventions that a government or donor uses to promote poverty reduction.

2.1. Demography Profile

A population's age structure is affected by the rates of change that occur across age groups on the three measures of fertility, mortality, and immigration. The "youth bulge" and the rapid growth of elderly populations relative to the working age population are two key age structure transitions that will shape the first decades of the 21st century. For the first time in human history, the next decades will witness the emergence of an urban majority in all regions, including sub-Saharan Africa.

The UN projects that the total urban population in the developing world, estimated at 1.97 billion in 2000, will more than double to 3.9 billion by 2030 and swell still further to 5.3 billion in 2050. By 2030 eight out of every ten of the world's urban residents will live in cities in Africa, Asia, or Latin America. The rate of urban population growth 28 in poor countries is fueled by natural increase more than migration, and already exceeds national growth rates. Most urban growth in the 21st century will occur in towns and cities where government services and infrastructure. The demographic changes will have on development over the first half of the 21st century by taking a close look at three demographic trends: fertility, mortality, and immigration; and examining how these will touch policy issues including poverty, public finance and infrastructure, and climate change. Three (3) major components derive red are developed as followed**: (**i) Fertility, (ii) Mortality, iii) International migration The size of the global population is most affected by fertility rates in countries with moderate to high population growth. At the global level, fertility rates have been falling since the last decades of the 20th century as a result of the (largely) voluntary choices of couples to limit the number of children born Very high fertility rates.

Across regions, there is only sub-Saharan Africa's fertility still averages above 5 (classified as very high), ensuring continuing population growth there into the 21st century. High fertility rates persist principally in 35 of the world's poorest countries, with Afghanistan, Nigeria, Uganda, and Yemen on course to see their populations triple by 2050. Stalled rates of fertility decline**.** While evidence of fertility decline can be found in all regions, including Africa, the pace of the transition varies sharply across regions. In some countries, a persistent preference for sons may play an important role in keeping fertility rates above replacement levels. Whatever the reason, the duration of stalled rates of fertility decline, especially in The African Sahel's fragile ecosystem continues to be burdened with a population increase of 3 percent each year. (Alex De Sherbinin and George Martine, 2007).

Mortality rates are determined chiefly by child mortality and longevity and show an improvement worldwide. Child mortality rates appear to be improving after a period of stagnation, while more and more developing countries are experiencing gains in longevity**.** As with fertility decline, developing countries in the 20th century experienced unprecedented gains in child survival. The rate of child mortality decline has slowed since around 1980 although it may now be picking up again. The slowdown occurred both in those countries where child mortality rates have fallen to the levels of industrialized countries, and in high mortality regions, including sub-Saharan Africa.

Globally, AIDS mortality will have a modest effect on future world population size; indeed, no single country is expected to see a decline in population size due to AIDS. During the second half of the 20th century, life expectancy at birth converged markedly across countries, with poor countries experiencing rapid gains caused mainly by striking improvements in child survival. Life expectancy raised an average of 23 years in the poorest 50 percent of countries between 1960 and 2000, but only nine years in the richest 50 percent, according to WHO. The movement of people across borders is the third force shaping population size, age structure, and distribution. Since the focus of the Demography and Development is on immigration from poor countries to richer ones and, to a lesser extent, to other poor countries. In 2005, approximately 60 million people migrated from a less developed country to a more developed one, roughly the same number that migrated from one less developed country to another less developed one.

2.2. Social Structure

Social structure is the organized pattern of social relationships and social institutions that together compose society. Social structures are not immediately visible to the untrained observer; however they are present and affect all dimensions of human experience in society. Social class shapes the access that different groups have to the resources of society and it shapes many in the Social Structure and interaction in everyday life. Social interaction is the process by which people act toward or respond to other people and is the foundation for all relationships and groups in society. Social structure is the framework of societal institutions (politics, and religion) and social practices (social roles) that make up a society and establish limits on behavior.

The Rwandan culture includes not only the population of Rwanda but people in neighboring states, particularly Democratic Republic of Congo and Uganda, who speak the Kinyarwanda language. The important ethnic divisions within Rwandan culture between Hutu, Tutsi, and Twa are based on perceptions of historical group origins rather than on cultural differences. All three groups speak the same language, practice the same religions, and live interspersed throughout the same territory; they are thus widely considered to share a common culture, despite deep political divisions.

Kinyarwanda is a unifying factor within Rwanda, since it is spoken almost universally. Closely related to Kirundi (spoken in Burundi), Mashi (spoken in the South Kivu region of the Democratic Republic of Congo), and Kiha (spoken in northwestern Tanzania), Kinyarwanda is a Bantu language. Less than 10 percent of Rwanda's population also speaks French, and a small portion speaks English, primarily refugees returned from Uganda and Kenya. Kinyarwanda is the primary cultural identify for Rwandans living outside Rwanda.

The three ethnic groups in Rwanda emerged through a complex process of immigration and social and economic differentiation that took place over several centuries. Tradition holds that Twa were the original inhabitants; Hutu came second in a wave of migration from the west, and Tutsi came much later from the northeast. Archeological and anthropological research, however, indicates that in fact patterns of migration were much more complex, as populations moved into Rwanda over many centuries. Each new group of migrants adopted the local language and most local customs, although they also added some of their own beliefs and practices to the local culture.

Modern ethnic identities emerged fairly recently and therefore could not derive primarily from migration. In fact, the differentiation throughout the region into three fully distinct ethnic groups occurred only during the colonial period and grew much more from European ideas about race and identity than from historic cultural patterns. Historically, social status was symbolized through the possession of cattle, the primary sign of wealth in Rwanda. In fact, Hutu families that acquired sufficient cattle and were able to take clients in the cattle vassalage system would eventually have their status changed and come to be known as Tutsi, whereas Tutsi who lost their cattle and clients would eventually be considered Hutu. Although ownership of cattle is no longer associated with ethnic identity, it remains an important symbol of status. Other historic symbols of high social status, such as elaborate hair styles and distinctive dress, are no longer in practice. Social status in contemporary Rwanda is reflected in the knowledge of French or English, which demonstrates a degree of education, and in the possession of consumer goods such as vehicles and televisions.

2.3. Economic Conditions

The study wants to examine the Economic conditions in developing countries, thus will determine the Status of a country's financial position at a specific period of time. Economic condition is used for statistics and it involves unemployment rates, stock market data, and GDP information, among other metrics. It change over time in line with the economic and business cycle, as an economy goes through expansion and contraction. Economic conditions are considered to be sound or positive when an economy is expanding, and are considered to be adverse or negative when an economy is contracting. A country's economic conditions are influenced by numerous macroeconomic and microeconomic factors, including monetary and fiscal policy, the state of the global economy, unemployment levels, productivity, exchange rates, and inflation and so on.

There are numerous economic indicators that are used to define the state of the economy or economic conditions. Some of these are the unemployment rate, levels of current account and budget surpluses or deficits, GDP growth rates, inflation rates and more. Economic data is released on a regular basis, generally weekly or monthly, and sometimes quarterly. Some economic indicators like the unemployment rate and GDP growth rate are watched closely by market participants, as they help to make an assessment of economic conditions and potential changes in them. Since most marketers are engaged in activities designed to entice customers to spend their money, it makes sense that an important external force is economic conditions. Economic analysis looks at how a defined group produces, distributes and consumes goods and services. These groupings can range from those defined very broadly (e.g., country) to those defined narrowly (e.g., small town). Of course the production, distribution and consumption of products are also of high interest to marketers and, in fact, many leading scholars of marketing first studied economics before moving to marketing.

In very simple terms (and with apologies to both marketers and economist) the major difference between the marketer and economist is that marketers are engaged in activity that make things happen to individual customers (e.g., create demand for products) while economists are engaged in activity showing the results marketers' decisions have on a group (e.g., study how much is being spent by certain groups). Additionally, economists whose job it is to study a group may use hundreds of economic variables when assessing how a group is responding. Marketers tend to evaluate far fewer economic variables preferring to concentrate on those variables that affect spending behavior of consumers and businesses. The economic conditions of most interest to marketers include:

- Income – how much is being earned
- Spending – what consumers and businesses are doing with their money
- Interest Rates – the cost of borrowing money
- Inflation – how prices for products and services are changing
- Cost of Living – the financial requirements of living in a certain geographic area
- Employment Rates – the percentage of employable people who are working
- Exchange Rates – how the value of currencies are changing between countries and regions.

2.4. Assessment of the Present Conditions

The concept of rural development has been broadened in recent times to accommodate non - economic issues, especially those relating to social, political, legal, cultural and environmental issues. This broadened rural development concept, otherwise known as the sustained rural development, takes a long - term view of which meets the needs of the present generation without compromising the needs of future generation. Participation means the active involvement of communities in need assessment, determination of priorities, planning and execution of projects. It also refers to the contribution of potential beneficiaries to the realization of a project for their own development. Community - based participatory approach to development is described as an umbrella term for anti-poverty programmes that involve the beneficiaries in their design and management. The key factor in participation is the incorporation of local knowledge into projects' decision-making process. Participation is fruitful for sustainable change as an active process by which beneficiaries or client groups influence the direction and execution of development projects in order to enhance their well - being in terms of income, personal growth, self - reliance and other cherished values.

The numerous initiatives of governments and development agencies in recent decades to provide access to financial services for the part of the population not being served by the formal financial sector did have some positive impact. However, significant challenges still remain, the most important ones being the creation of an appropriate economic environment, a conducive legal and regulatory framework and the development of sustainable (subsidy-free) financial intermediaries, in both urban and rural areas. Without a well-functioning finance system, neither aid nor local entrepreneurship as such can create the right business climate conditions for long-term economic growth.

Access to finance is a key to development and growth. Poor people need financial services for the same reasons as everyone else - to save small amounts of money in a secure manner, to invest in their home or business, to meet large expenditures, to insure against risk and to transfer money. It is a mistaken belief that poor people do not or cannot save money. In fact, poor people throughout the world and across many cultures and economies save in many ways and for a variety of purposes. They save for household emergencies, to manage irregular income streams, for social and religious obligations and for long-term investment opportunities. Often these savings are set aside in non-financial forms, since suitable savings institutions and instruments are not available for this part of society. Moreover, confidence in the financial system is generally lacking because of low stability and high inflation figures. Access to financial services for the poor will contribute to achieving the MDGs in many ways. Financial services enable the poor to increase and diversify incomes, build human, social and economic assets, and improve their lives in ways that reflect the multi-dimensional aspects of poverty. Evidence shows that poor people choose to invest in a wide range of assets: better nutrition, improved health, access to schooling, a better roof on their homes, and expansion of their small businesses (CGAP, 2002).

3. Financial Institutions as Change Agent

Financial institution is an establishment that focuses on dealing with financial transactions, such as investments, loans and deposits. Conventionally, financial institutions are composed of organizations such as banks, trust companies, insurance companies and investment dealers. Almost everyone has deal with a financial institution on a regular basis. Everything from depositing money to taking out loans and exchange currencies must be done through financial institutions. A financial institution is any establishment where the primary activity is fostering financial transactions. There is a wide variety of financial institutions available, from large commercial banks to small credit unions.

Commercial banks can be anything from a single-branch institution to a multinational corporation. Despite the size, most commercial banks tend to do the same sorts of financial transactions. They serve the consumer by allowing deposits that keep the customer's funds safe. They also provide business and personal loans, as well as act as intermediaries for payments between persons, organizations and even nations. Investment banks and brokerages are also examples of financial institutions. Both handle investments, with investment banks dealing mostly with offering funds to other enterprises, while brokerages allow customers to invest in companies and commodities through the purchase of financial instruments. Government agency or privately owned entity that collects funds from the public, and from other institutions, and invests those funds in financial assets, such as loans, securities, bank deposits, and income generating property.

Financial institutions act as intermediaries between saver and borrowers and are differentiated by the way they obtain and invest their funds. Depository financial institutions is a group that includes commercial banks, savings and loan associations, mutual savings banks, and credit unions-conduct business by accepting public deposits, which are insured by the federal government against loss, and channeling their depositors' money into lending activities. Non depository financial institutions, such as brokerage firms, life insurance companies, pension funds, and investment companies, fund their investment activities directly from the financial markets by selling securities to the public or by selling insurance policies, in the case of insurance companies. Increasingly, the boundaries between depository and non-depository institutions have become less distinct.

Financial-institution is the same services as banks without being considered banks themselves include savings and loans and credit unions. The main difference savings and loans have from banks is that their lending is restricted primarily to mortgages. Credit unions differ in that they must limit membership to specific organizations, such as a company or church, without being open to the general public. The institutional elements of a vibrant financial sector are now in place in Rwanda, with bank and non-bank deposit-taking institutions, insurance companies and capital markets firms providing an expanding range of products and services (Table 1.)

Table 1. Rwandan formal financial sector, end-2011.

	Number	Assets (RWF billions)	Assets ($ millions)	Assets (percent of GDP)
Banks	13	1,083.3	1,793.5	29.2
Foreign-owned commercial banks[a]	6	374.3	619.7	10.1
Local privately owned commercial banks[b]	2	361.7	598.8	9.7
Cooperative bank[c]	1	156.7	259.4	7.0
Microfinance banks[d]	4	100.3	166.1	2.7
Development bank[e]	1	90.1	14.9	2.4
Microfinance institutions (MFIs)	497	77.4	128.1	2.1
SACCOs	486	55.0	91.1	1.5
Of which, Umurenge SACCOS	416	29.1	48.2	0.8
MFIs	11	22.3	36.9	0.6
Insurance companies	8	143.7	237.9	3.9
Public insurers[f]	2	--	--	--
Private insurers[g]	6	--	--	--
Insurance brokers	5	--	--	--
Insurance agents	102	--	--	--
Insurance adjustors	4	--	--	--
Pension schemes	41	189.4	313.5	5.1
Rwanda Social Security Board[h]	1	211.6	350.3	9.4
Private	40	--	--	--.
Listed companies (market capitalization)[i]	4	255.5	423.0	6.9
Stock brokers, dealers	8	--	--	--
Capital markets advisory services	2	--	--	--
Members of the Over-the-Counter Market	7	--	--	--

a. Access Bank, Banque Commercial du Rwanda, Ecobank, Equity Bank, Finabank, Kenya Commercial Bank.

b. Bank of Kigali, Cogebanque,

c. Banque Populaire du Rwanda.

d. Urwego Opportunity Bank, Ageseke Bank, Unguka Bank, Zigama CSS.

e. Development Bank of Rwanda (Banque Rwandaise de Développement).

f. Military Medical Insurance, Rwanda Health Insurance Fund.

g. SONARWA, SORAS AG, SORAS Vie ltd., CORAR, COGEAR, Phoenix Assurances of Rwanda.

h. Total RSSB assets include the medical insurance fund in addition to pension assets.

i. Bank of Kigali, Brasseries et Limonaderies du Rwanda, Kenya Commercial Bank, Nations Media Group. Market capitalization excludes cross-listed Kenyan companies.

Note: end-2011 nominal GDP = RWF 3,709 billion; 1$ = RFW 604.

Sources: BNR, CMA, RSSB.

The sector remains bank-dominated in terms of total assets, mobilizing savings and lending, with microfinance institutions (MFIs), particularly savings and credit cooperatives SACCOs), playing an important outreach role in bringing formal financial services to Rwandans not previously served by the banking sector (Table 2). The Rwanda Social Security Board (RRSB) is dominant in long term savings. In common with all of East Africa, the Rwandan insurance sector remains at an early stage of development. Private pension schemes have begun to develop in anticipation of the introduction of the legal framework, with the pending enactment of the new pension law expected to provide greater certainty and a foundation for expanding contractual savings. Enactment of the Trust Law currently being considered by Parliament will facilitate unit trusts as well as the growth of the funds management business. The Rwanda Stock Exchange (RSE) has four listed companies as well as one corporate bond issue and four issues of government treasury bonds.

Table 2. Outreach by deposit-taking institutions, end-June 2012.

	Service points	Number of deposit accounts	Number of borrowers
Banks	301	1,283,466	357,971
Of which, Banque Populaire du Rwanda	118	842,831	143,374
Microfinance banks	47	98,574	84,436
Microfinance institutions	683	1,775,533	176,987
SACCOs	608	1,468,063	156,972
Of which, Umurenge SACCOs	513	1,211,726	43,433
MFIs	75	307,470	20,015

Source: Umurenge Saccos

The BNR is the prudential supervisory authority with responsibility for banks, microfinance institutions, insurance and pensions. The Capital Markets Authority (CMA) evolved in 2011 from the capital markets advisory committee into a full-fledged market conduct regulator. The legal and regulatory framework for the financial sector is largely complete, with work ongoing on the still outstanding elements such as the law on pensions and the trust law. Experience to date has identified some areas where refinements to the legal and regulatory framework are required, and these are addressed as policy action items under FSDP II. In addition, a range of regulatory revisions have been identified for implementation as part of the East African Community (EAC) harmonization initiatives. The BNR has played a key role in financial sector development in addition to its monetary policy and prudential oversight role. The BNR took the lead in the development of FSDP I, and had primary responsibility for implementation of many of the key policy actions. The BNR continues to play a broader role than most central banks in policy development, directly shaping the evolution of the Umurenge SACCOs and drafting financial sector legislation such as the deposit insurance law. MINECOFIN is also a key public policy player in financial sector development, steering FSDP II, preparing policy, and overseeing financial sector legislation in areas outside of the BNR's competencies such as capital markets. Rwanda Cooperative Association (RCA), an agency of the Ministry of Industry and Trade (MINICOM), has an ongoing oversight and policy role with SACCOs as part of its broader mandate for cooperatives, and Rwanda Development Bank (BRD) also plays a significant role. The agriculture sector suffers from insufficient access to finance and insufficient investment capital for farming, agro-processing and export development. Low productivity and high vulnerability of the agricultural sector make banks reluctant to offer financial services to rural farmers, largely due to lack of information on profitability of value chain activities.

3. 1. Activities of Financial Institutions

In developing countries, 60-80% of the population lives in rural areas which are widely dispersed. Physical, institutional and Information Technology infrastructures are barely developed and the wages and education levels are low. Agriculture is the main activity in rural areas. Only a small number of the farms are commercially oriented; the greater part consists of subsistence and semi-subsistence farms. The rural non-farm economy plays an important role for wealth creation and well-being across countries. In many developing countries, small rural households with small plots of land earn more than half of their total income from non-farm sources. This is as a result of the fact that many rural families need to diversify their sources of income and employment in view of increasingly smaller parcels of land, low agricultural productivity, volatile weather conditions and soil erosion. Roughly 4 billion people living in developing countries and emerging economies do not have access to financial services such as credit, savings and insurance.

Formal financial intermediaries, such as commercial banks, usually refuse to serve poor households and micro-enterprises because of the high cost of small transactions, lack of traditional collateral, lack of basic requirements for financing and geographic isolation. By doing so, these institutions ignore the enormous potential in talents and entrepreneurship of this stratum which can take the economy to a higher level. It is essential that these enterprises have access to financial services fitting their needs, in order to continue and expand their businesses. The larger part of the population in developing countries lives in rural areas, in which agriculture is the main activity. Formal financial institutions often avoid financing rural areas due to the perceived higher costs and risks. These are related to the widely-dispersed population, poorly-developed infrastructure and specific client needs of the agricultural sector. Without sufficient financial services to meet the enormous larger part of the population in developing countries lives in rural areas, in which agriculture is the main activity of society. Providing access to financial services will stimulate the independence and self-development of poor households and micro-entrepreneurs. This will help not only to improve poor people's economic condition, but also to provide a way to maintain or improve their quality of life in the face of uncertainty. Moreover, gaining access to financial services is a critical step in connecting the poor to a broader economic life and in building the confidence for them to play a role in the larger community. By increasing access to financial services for the poor segments of society, the financial sector can play an important role in alleviating poverty in developing countries. To achieve sustainable economic growth in these regions, the focus should be on the whole range of economic activities, including small and medium-sized enterprises (SMEs) and farmers. SMEs are important drivers to a country's economic development. They have the ability to create goods, innovations and employment. Formal financial institutions often avoid financing rural areas due to the perceived higher costs and risks. These are related to the widely-dispersed population, poorly-developed infrastructure and specific client needs of the agricultural sector. Without sufficient financial services to meet the enormous demand, rural areas will remain underdeveloped. Therefore, dedicated financial institutions which understand the needs of the agricultural sector are needed to support rural and economic development. Micro-enterprises, as well as SMEs, identify an economic opportunity and are in a position to capitalize on that opportunity. They need investment and working capital to start or expand their business activity. The demand for financial services in this part of the society is huge. Formal financial intermediaries in developing countries, especially commercial banks, usually do not serve micro- and small enterprises because of the high cost of small transactions, lack of traditional collateral, lack of basic requirements for financing and geographic isolation. These enterprises therefore rely on their own savings capacities, relatives and friends. Otherwise, they must rely on the flexible but exorbitant terms offered by moneylenders and traders. In yet other cases they seek out local credit unions, co-operatives or non-profit organizations providing limited financial services.

The financial sector in developing countries consists of three sub-sectors: the formal, semi-formal and informal sector. The formal financial sector falls under the banking law and regulation and supervision of financial authorities. It includes various kinds of banks (commercial, development, specialized, regional, co-operative), insurance companies, social security schemes, pension funds, and in some countries, capital markets. In many countries, the formal sector is largely urban-based and organized primarily to supply the financial needs of the wealthier population and larger corporations.

3.2. Rural Banks

Banks continue to provide the energy and the power in driving the economic growth and credit is being made available to various sectors of the economy. However, allocation of credit to various sectors is uneven and the time has come for banks to rebalance their portfolio. In the present fast growing economy, banks have to ensure that sectors, which are denied credit such as the vast rural economy, are brought into immediate consideration. The present study sensitize the Rural Banking and Rural Development about the importance of micro credit as an effective tool towards poverty alleviation strategies, and enhance the skill and knowledge level of the Rural

Banking and Rural Development people on creating sustainable credit linkages through micro-finance and inclusive growth strategy. Rural bank makes a new development in the rural credit system tailored to the needs of the rural people. "A rural bank may be said as a primary banking institution set up to serve a compact group of villages generally working as a co-operative or as subsidiary bank of a commercial bank, functioning or set in a rural area for the purpose of providing banking and credit facilities in that area". The main purpose of the rural bank is to provide banking and credit facilities to the rural people. The regional rural banks have been conceived as: (a) an answer to meet the diverse and heterogeneous needs of rural people with different socio-economic and agro- geographical conditions, (b) designed to specific economic and occupational groups, i.e. the small and marginal farmers, agriculture labourers, artisans etc, and (c) to be a catalytic agent to develop the rural economy by providing not only credit but also other facilities. They are supposed to be a nucleus of rural development in view of their relatively low cost structure, local ethos and professional management. They are government owned, regionally based and rurally oriented banks to supplement the existing rural credit institutional system. The main objective of RRBs is to provide credit facility and services the rural areas so that the economy can be accelerated on the path of development. “Its object is to provide at one place the special type of credit and banking facilities and other related services needed by agriculturists and other rural purposes. The regional rural banks strive to develop the rural economy with special emphasis on small and marginal farmers, farm labourers, rural artisans and small entrepreneurs, etc. Taking full amount of local ethos and local conditions, these banks would be quite different in attitude and operation from the public sector and co-operative banks. As against the elitist and urban-oriented operations of the public sector commercial banks, the Regional Rural Banks are rural oriented and specially tailored to cater to the needs of rural areas especially the rural poor.

3.3. Functions of Regional Rural Banks

The main function of the RRBs is to provide banking facility to the rural people. It also provides some non-banking facilities to the rural population such as constructing and maintaining go-downs on their own, supplying agricultural inputs and acquiring of agricultural and other equipment for leasing it out, providing assistance in the marketing of agricultural and other products. More specifically, the functions of the RRBs are listed as follows:

1. To mobilize local savings by means of various types of deposits,

2. To provide short-term and medium-term credit for agriculture and other purpose to rural producers and long-term loans to agriculturists as an agent of the Land Mortgage Bank,

3. To implement programmes of the supervised credit tailored to the needs of individual farms,

4. To provide various ancillary banking services to local people such remittance of funds, acceptance of insurance premium, safe deposit, ATMs and lockers, etc,

5. To set-up and maintain go-downs for storage of agricultural products,

6. To undertake supply of inputs and agricultural and retail equipment to farmers as an agent and in deserving cases leasing of equipment,

7. To improve assistance in the marketing of agricultural and other products through marketing organizations,

8. To help for the overall development of the villages in its jurisdiction

3.4 Important Role of Commercial Banks in a Developing Country

Some of the major important role of commercial banks in a developing country is as follows: Besides performing the usual commercial banking functions, banks in developing countries play an effective role in their economic development. The majority of people in such countries are poor, unemployed and engaged in traditional agriculture. There is acute shortage of capital. People lack initiative and enterprise. Means of transport are undeveloped. Industry is depressed. The commercial banks help in overcoming these obstacles and promoting economic development.

3.5 Mobilizing Saving for Capital Formation

The commercial banks help in mobilizing savings through network of branch banking. People in developing countries have low incomes but the banks induce them to save by introducing variety of deposit schemes to suit the needs of individual depositors. They also mobilize idle savings of the few rich. By mobilizing savings, the banks canalize them into productive investments. Thus they help in the capital formation of a developing country.

3.6 Financing Industry

The commercial banks finance the industrial sector in a number of ways. They provide short-term, medium-term and long-term loans to industry. In India they provide short-term loans. Income of the Latin American countries like Guatemala, they advance medium-term loans for one to three years. But in Korea, the commercial banks also advance long-term loans to industry. In India, the commercial banks undertake short-term and medium-term financing of small scale industries, and also provide hire- purchase finance. Besides, they underwrite the shares and debentures of large scale industries. Thus they not only provide finance for industry but also help in developing the capital market which is undeveloped in such countries.

3.7 Financing Trade

The commercial banks help in financing both internal and external trade. The banks provide loans to retailers and wholesalers to stock goods in which they deal. They also help in the movement of goods from one place to another by providing all types of facilities such as discounting and accepting bills of exchange, providing overdraft facilities, issuing drafts, etc. Moreover, they finance both exports and imports of developing countries by providing foreign exchange facilities to importers and exporters of goods.

3.8 Financing Agriculture

The commercial banks help the large agricultural sector in developing countries in a number of ways. They provide loans to traders in agricultural commodities. They open a network of branches in rural areas to provide agricultural credit. They provide finance directly to agriculturists for the marketing of their produce, for the modernization and mechanization of their farms, for providing irrigation facilities, for developing land, etc. They also provide financial assistance for animal husbandry, dairy farming, sheep breeding, poultry farming, pisciculture and horticulture. The small and marginal farmers and landless agricultural workers, artisans and petty shopkeepers in rural areas are provided financial assistance through the regional rural banks in India. These regional rural banks operate under a commercial bank. Thus the commercial banks meet the credit requirements of all types of rural people.

3.9 Financing Consumer Activities

People in underdeveloped countries being poor and having low incomes do not possess sufficient financial resources to buy durable consumer goods. The commercial banks advance loans to consumers for the purchase of such items as houses, scooters, fans, refrigerators, etc. In this way, they also help in raising the standard of living of the people in developing countries by providing loans for consumptive activities.

3.10 Financing Employment Generating Activities

The commercial banks finance employment generating activities in developing countries. They provide loans for the education of young person's studying in engineering, medical and other vocational institutes of higher learning. They advance loans to young entrepreneurs, medical and engineering graduates, and other technically trained persons in establishing their own business. Such loan facilities are being provided by a number of commercial banks in India. Thus the banks not only help inhuman capital formation but also in increasing entrepreneurial activities in developing countries.

3.11 Help in Monetary Policy

The commercial banks help the economic development of a country by faithfully following the monetary policy of the central bank. In fact, the central bank depends upon the commercial banks for the success of its policy of monetary management in keeping with requirements of a developing economy. Thus the commercial banks contribute much to the growth of a developing economy by granting loans to agriculture, trade and industry, by helping in physical and human capital formation and by following the monetary policy of the country.

3.12 Types of Banks

Commercial banks differ from investment banks. Most financial consumers think of "the bank" as a place to keep liquid financial resources, such as checking accounts and savings accounts. A consumer may have personal accounts at a commercial bank. The commercial bank's primary business involves taking in financial assets as deposits then lending these assets to other customers at a rate of interest. The interest rate the bank charges on loans and revolving lines of credit or other credit facilities will depend on the current interest rate environment. A consumer bank, such as a credit union or savings bank, may focus on the personal banking needs of a specific group or industry. An investment bank raises capital for businesses. The investment bank works with businesses to sell loans offered by the company called bonds. Bonds are debts owed by the company to investors. The investment bank distributes the bond issue to customers.

The investment bank may choose to distribute publicly traded bonds to clients, or arrange a private placement of the client company's debt directly with another company. The investment bank prices the debt according to the current yield curve and the company's credit rating. Investment banks also raise capital for client companies by arranging equity issues, called stock. Investment banks receive fees from clients to raise capital. Many investment banks employ professional sales and marketing teams to distribute clients' debt and equity issues. As a capital market banking institution, investment banks also help clients to restructure debt loans. In some instances, the bank creates new structured financial products or collateralizes debt with other financial assets. Investment banks may also utilize derivative instruments—stand-in, synthetic investment products—to assist clients' achievement of financial goals. Consumers use banks to keep financial resources safe and readily available for use. Deposits made by customers of the bank are insured by the Federal Deposit Insurance Corporation (FDIC). Customers of the bank rely upon its ability to liquidate financial resources held on account when they request the bank to do so. Banks provide customers with specially printed checkbooks. Customers pay creditors and other financial obligations by writing a check on the bank account. The bank pays the check written by its customer. Overdrafts and other fees are charged in accordance with the bank's customer policy. If a customer withdraws more money than he has in account with the bank, the bank charges the customer a fee. Customers may arrange for overdraft protection with the bank. Overdraft protection is a loan that is accessed when the customer's available fund balance is negative. Banks lend money to private and business customers. These loans take the form of personal loans, commercial/business loans, and home/property loans (mortgages).

A credit card is a form of demand loan available to the customer. The bank also supports its credit card business by processing payments to settle customer credit card bills. To support merchants accepting customers' credit cards, banks may offer a merchant network service. Merchant network services include card terminals or credit card machines. Banks provide debit cards to their customers. Sometimes called check cards, debit cards provide ready access for customer use without the need to make a physical check or cash withdrawal. Customers may use debit or credit cards in the bank's automatic teller machine (ATM). Banks facilitate fund transfers for customers via wire transfer and electronic transfer of funds. Banks utilize an inter bank network to transfer funds for clients. Banks also provide certified or cashiers' checks for customers. The bank guarantees the check so that the customer may offer it as certified available funds to a payee. In order to create a certified check, the bank usually withdraws client funds. Banks offer the services of a notary public to validate clients' important documents. Private bank clients must usually present a certain minimum net worth to obtain private banking services. Private bank services include tax and estate planning, tax planning, and philanthropic gift planning inked to the branch. This will reduce back office and control costs, while branches with sufficient size can employ professional bankers. The Rwandan banking sector remains liquid and very well capitalized. The BNR will continue to strike an appropriate balance in its supervision and regulation between protecting consumers and financial stability, and encouraging innovation. The sector has been growing rapidly, with consumers benefiting from the very large increase in outreach over 100 new physical service locations over the last five years, as well as automated teller machines (ATMs) and card products and the newly introduced agency banking model. Preference will be given to institutions offering a new business model for example a focus on small and medium sized business or global reach in considering potential new entrants to the banking market. New banks using similar business models to the incumbents may not increase competition, and Rwandan banks need to build scale to achieve efficiencies to compete within the region and more broadly.

4. Microfinance Activities

Microfinance is the supply of loans, savings and other basic financial services to the poor. The owners of micro and small enterprises require a diverse range of financial instrument to meet working capital requirement, build assets stabilize consumption and shield themselves against risks (Ehigiamusoe, 2005). Financial services to meet these needs of the poor include working capital loans; consumer credits savings products pension plans insurance schemes and money transfer facilities. In practice, microfinance is much more than the disbursement, management and collection of bits of loans.

4.1 The Goals of Microfinance Banks

The microfinance policy (MFP) (2010), states that the establishment of microfinance banks has become imperative to serve the following purposes: (i) Provide diversified, affordable and dependable financial services to the active poor, in a timely and competitive manner, that would enable them to undertake and develop long-term, sustainable entrepreneurial activities;(ii) Mobilize savings for intermediation; (iii) Create employment opportunities and increase the productivity of the active poor in the country, thereby increasing their individual household income and uplifting their standard of living; (iv) Enhance organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process; (v) Provide veritable avenues for the administration of the micro credit programmes of government and high net worth individuals on a non-recourse case basis. In particular, this policy ensures that state governments shall dedicate an amount of not less than 1% of their annual budgets for the on-lending activities of microfinance banks in favour of their residents; and (vi) Render payment services, such as salaries, gratuities, and pensions for various tiers of government.

4.2 How Microfinance Should Be Regulated

Microfinance is basically a tool designed to improve the capacities of the economically active poor to participate in the larger economy. The economically active poor are either micro entrepreneurs who operate in the informal sector (trading, farming, food catering, craftsmanship and artisanship) or people earning wages. Such poor people earn their living in either rural or urban areas; and the financial services for which access is sought are mainly savings and loans (Idolor, 2007). Micro finance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Many features distinguish micro finance from other formal financial products. Five of these are: the smallness of loans advanced or savings collected the absence of asset-based collateral, and simplicity of operations (Kimotha, 2005). Others are its targets as the marginalized group of borrowers, and its general employment of a group lending approach (Igbinedion and Igbatayo, 2004). The group lending approach has implication for the pressure that the members of the group bring to bear on one another to ensure loan repayment, so that the group can continue to enjoy borrowing or loan facilities.

In developing countries, a majority of the population does not have access to financial services and thus constitute the group that micro finance tries to reach. Nigeria, like any other developing country, is saddled with the problem of rural urban migration, mass illiteracy, poor infrastructures, poverty and low access to formal financial services. Hence the need for the government's micro finance policy, aimed at expanding the financial infrastructure of the country to meet the financial requirements of the Small and Medium Enterprises (SMEs) as well as the rural and urban poor. The policy has created a platform for the establishment of Micro Finance Banks (MFBs) geared towards enhancing the provision of diversified micro finance services on a short-term or long-term and sustainable basis for the poor and low-income groups. It would also help create a vibrant micro finance sub-sector that would be adequately integrated into the mainstream of the national financial system and provide the stimulus for poverty reduction, economic growth and development (CBN, 2005). It also has the potential of not only urban--rural but rural--rural migration as Nyberg and Rozelle (1999) noted with respect to China.

4.3 Microfinancing and Rural Poverty Reduction

Poverty is basically a state where an individual or group has insufficient income for securing basic goods and services. It is an unacceptable human deprivation in terms of economic opportunity, education, health, nutrition as well as lack of empowerment and security (Ukeje, 2005; World Bank, 1995). This is not a point of consideration that Micro financial services have capability to offer better services than conventional banking services and carry out the needs of the underprivileged people. The significant factor is that external Micro financial services should join hand to the running system of lending and/or borrowing money in rural areas instead of throwing them out. In this way the poor people especially women who require the fund to run their business and family activities in a well-organized manner will get benefited more. Some critical issues for microfinance organizations are as follows: (i) Sustainability: The primary issue is related to sustainability. It has been reported in much news that the Micro financial institutions are comparatively costlier in terms of delivery of financial services. This is partially explained by the fact that the cost of supervision of credit is high, while the loan quantity and loan volume is low. Therefore it is necessary for MFIs to develop strategies for increasing the range and volume of their financial services. (ii). Lack of Capital: The next part of concern for

MFIs, which is on the expansion path, is that they face a scarcity of owned funds. This is a critical constraint in their being able to scale up. Many of the MFIs are socially oriented institutions and do not have adequate access to financial capital. As a result they have high debt equity ratios. (iii). Borrowings: In comparison with earlier years, MFIs are now finding it relatively easier to raise loan funds from banks. This change came after the year 2000, when Rural Banks (BRD) allowed banks to lend to MFIs and treat such lending as part of their priority sector funding obligations. Private sector banks have designed innovative products such as the Bank Partnership Model to fund MFIs and have started viewing the sector as a good business proposition. But banks need to be most careful when they feel most confident about MFIs. Bank should find the right technologies to assess the risk of funding MFIs. (iv). Capacity of MFIs : It is now accepted that MFIs has both social and commercial dimensions. Since the sustainability of MFIs and their clients complement each other, it follows that building up the capacities of the MFIs and their primary stakeholders. These are preconditions for the successful delivery of flexible, client responsive and innovative microfinance services to the poor.

To conclude this section, the MFI is leaving enormous economic and social impact. Microfinance provide both savings and loan facilities An MFI is likely to provide the much needed funds to the potential entrepreneurs of the rural India. Also it is anticipated that the people would become socially more advanced as they come into touch with the outside world. In order to be sustainable, microfinance lending should be fixed on market principles because large scale lending cannot be completed through financial support.

A core conclusion of this paper is that microfinance can contribute into solving the problem of insufficient housing and rural services as an integral part of poverty alleviation programs and empower women to play a vital role in the society. Eventually it would be ideal to improve the creditworthiness of the poor and to make them more bankable to financial institutions and allow them to meet the criteria for long-term credit from the formal sector. Microfinance institutions have a lot to contribute to this by building financial discipline and educating borrowers about compensation requirements

5. Need for Rural Development

The need for rural development is to reduce the nature of poverty. The present study states some more facets of rural poverty are explained:

5.1 The Rural Nature of Poverty:

As the name implies, rural development focuses on rural areas. In Rwanda, around 9.1 million people, i.e., 85% of the total population lives in rural areas. Many of the poor and extreme poor reside in this demographic group. Poverty remains largely a rural and agricultural phenomenon with rural and urban poverty at 48.7% and 22.1%, respectively. Rural households are more than twice as likely to be either poor or in extreme poverty than urban households. Inequality is Still High despite Decreasing: As measured by the Gini coefficient, inequality has reduced in the last five years to a level lower than in 2000/2001. Thus, poorer households (predominantly rural) have become better off in proportional terms and at a faster rate than less poor households. However, the Gini index remains high and there is a need to ensure that inclusive growth takes place in rural areas.

5. 2 Land Size and Poverty

Rwanda is predominantly rural in its landscape with around 1.4 million hectares of arable land. Land categorized as rural is nearly 98% of total land area, with around 54% classified as arable, and the urban area being only 1.5% of total country surface (RNRA 2012). Agricultural smallholders dominate the scarce land available in Rwanda and the smaller the land holding, the more likely the land holder to be in poverty. Smallholders hold an average of four to five plots that make up a mean land size average of approximately 0.59 hectares, with a median value of 0.33 hectares. However, the average picture does not show how skewed land distribution is in Rwanda. 36% of households own 6% of the farm land, with an average of only 0.11ha per household. In addition, women provide the bulk of labour in the crop sector, but function mainly at subsistence level with insufficient skills, access to markets and control over land and other agricultural facilities.

5.3 Rural Livelihoods and Poverty

The prevalence of poverty is associated with low productivity in subsistence agriculture. Poverty is highest by far (76.6%) among households (often landless) who obtain more than half their income from working on other people's farms. The next poorest group is those with diversified livelihoods who obtain more than 30% or more of their income from farm wage works (76.2%). Women are more likely to fall into the category. Given the transition of some men to off-farm employment, there are now more women involved in agricultural subsistence production than before EDPRS 1. Agriculture can also offer a pathway out of poverty. Improving productivity and increasing sales of produce is an important income earner for smallholders. A study on Rwanda by IFPRI supports this: "economy wide growth led by the agriculture sector has a greater effect on poverty reduction than does the same level of growth driven by the non-agricultural sector" (IFPRI 2009).

5.4 Rural and Urban Linkages

The connection between poverty and rural-urban linkages and urbanization, are important considerations in Rwanda. Economic growth has spurred internal migration and it is estimated that 19% of the population migrated within the country during EDPRS 1. Additionally, the higher the wealth of the family, the more likely the individuals is to move. The size of the poverty differential between urban and rural areas will to some extent explain the level of migration. Therefore it will be important to strengthen the economic interdependence between rural and urban areas. Urban areas provide markets for rural products. And Center's for processing, distribution and information and concentration and agglomeration of people and activities lead to high levels of social and economic development (De Janvry and Sadoulet (2010) looking at numerous countries, show growth in agriculture leads to three times as much poverty reduction than GDP growth outside of agriculture). Microfinance has provided unprecedented opportunities for many poor areas of the world.

Microfinance activities revolve around providing very small loans to poor people or nations in order to help start a business or fund a social project. There are many different types of microfinance activities which include grants, low interest micro-loans, and making credit available. Many organizations make microfinance loans of $100 or less to individuals in countries where that much money is enough to start a business and improve the surrounding area.

The most common activity in microfinance is providing small business loans to entrepreneurs in poor nations. These loans are amounts that are very small by First World nation standards, but in many countries $100 to $300 is more than enough to fund an entire business start-up including materials, supplies, advertising, and an emergency fund. These loans can bring profitable businesses to some of the most destitute places in the world, and the prosperity of even a few business owners can be enough to help lift an entire village out of poverty. Banks traditionally don't make loans that small, which is where micro financing comes in.

6. Microfinance Grants

There are also microfinance grants that are offered by various organizations. The idea behind microfinance grants is that small donations given to specific villages, small business start-ups, or very specific projects will be a more efficient way of using donated money than a large-scale donation. One of the major advantages of a microfinance grant is that the structure forces a clear use for the money. Each grant can be traced to a specific person, business, or place as opposed to large-scale charity, where it's easy for many donations to slip through the cracks or get eaten up by administration fees.

6.1 Microfinance Charity

One of the most active sectors of microfinance is charity. Microfinance has caught on with many charities that allow people to donate directly to a project needing financing without using a bank as a middleman. Kiva is one example of a charity that does this. An individual requesting a microfinance loan can tell his story, what he wants the money for, and how much is needed to get going. A person can look through the individual requests and use Papal to donate however much she wants toward these loans. The charity takes a small percentage, and then gives these loans out with low interest rates to help people fund microfinance projects across the world.

6.2 Women's Participation in Microfinance

All over the world, the significant of women entry into the workforce over the past three decades has produced profound transformations in the organization of families, society, the economy, and urban life. Since the late 1950s, women's economic activities have been steadily increasing. Women have always actively participated in their local economies. In Africa, for example, women produce 80 percent of the food and in Asia 60 percent and in Latin America 40 percent. In many cases, women not only produce the food but market it as well, which gives them a well-developed knowledge of local markets and customers. This is a small example of the importance of women's work in society. It does not illustrate the real extent of women's contribution, especially in developing countries, not only to the labour force, but also their role as a significant income-source for the family. For instance, in Africa all tasks related to a family's support are the responsibility of women. Due to cultural and traditional aspects, a woman's presence has been a question of survival of her family. Women, especially poor mothers, must divide their time between work "productive role" and family "reproductive role", and balancing all the demands. Time is valuable for these women, as their livelihoods depend largely on their ability to fulfill the multiple demands of the household and the marketplace. In spite of the remarkable importance of women's participation, their jobs have been considered as an "extra income" to family survival or simply to improve its living conditions. Moreover, micro enterprises owned by women have been considered as a way to meet primary needs instead of a profitable source of income. Unfortunately, labour markets have followed this perception and have offered less favourable conditions to women. Women workers consistently earn less than their male partners do. That is the case of Cameroon women who work, for example, up to 10 hours a day, but at the end of the month, their income is far below the Cameroon monthly minimum wage of 29000 CFA francs (US$ 60). Women have had to fight against an adverse environment, which traditionally had been minimizing and exploiting their capacities. As a consequence of this reality, in some cases, women are just satisfied with the non-financial benefits, such as the psychological satisfaction of "social contact" Although men, as well as women, face difficulties in establishing an additional enterprise, women have barriers to overcome. Among them are negative socio-cultural attitudes, legal barriers, practical external barriers, lack of education and personal difficulties. In spite of this, for women and especially for poor women, micro enterprise ownership has emerged as a strategy for economical survival. One of the most essential factors contributing to success in micro- entrepreneurship is access to capital and financial services. For various reasons, women have had less access to these services than men.

In this context, credit for micro enterprise development has been a crucial issue over the past two decades. Research has shown that investing in women offers the most effective means to improve health, nutrition, hygiene, and educational standards for families and consequently for the whole of society. Thus, a special support for women in both financial and non-financial services is necessary. Regarding limited-access to financial services, women depend largely on their own limited cash resources or, in some cases, loans from extended family members for investment capital. Smaller amounts of investment capital effectively limit women to a narrow range of low-return activities which require minimal capital outlays, few tools and equipment and rely on farm produce or inexpensive raw materials.

In general, women need access to small loans (especially for working capital), innovative forms of collateral, frequent repayment schedules more appropriate to the cash flows of their enterprises, simpler application procedures and improved access to saving accounts. Surveys have shown that many elements contribute to make it more difficult for women in small businesses to make a profit. These elements are:

- Lack of knowledge of the market and potential profitability, thus making the choice of business difficult.
- Inadequate bookkeeping.
- Employment of too many relatives which increases social pressure to share benefits.
- Setting prices arbitrarily.
- Lack of capital.
- High interest rates.
- Inventory and inflation accounting is never undertaken.
- Credit policies that can gradually ruin their business (many customers cannot pay cash; on the other hand, suppliers are very harsh towards women). How to increase and support women's participation in micro-finance activities? Both governments and donors should explore ways of developing innovative credit activity using intermediary channels or institutions closer to the target groups such as co-operatives, women's group associations and other grassroots organizations. Savings and credit activity should be designed in a way not to exclude women from participating. Additionally, there is a need to examine the impact of structural adjustment

policies on men and women at the family level as well as within various sub-sectors of the labour market and within the small enterprise sector itself. In general terms, in order to facilitate the participation of women in micro and small enterprise, donors should:

• Encourage micro enterprise activity to develop specific strategies for recruiting women as clients from within their existing target groups.

• Encourage micro enterprise activity to expand their target groups to include the sizes and types of enterprise activities in which women engage and/or experiment with assistance strategies, business and technical assistance needs of these types of enterprises.

• Consider expanding support to a broader range of organizations, especially poverty-focused organizations active in rural areas. Support for these organizations should include technical assistance and training in planning, management and in developing teams of female staff to assist clients in business planning and management. To increase women's access to credit, the donor community should:

- Increase the availability of working capital;
- Experiment with lending microfinance that do not require conventional forms of collateral;
- Replicate and expand existing successful methodologies for delivering small working-capital loans;
- Introduce savings mobilization components in the context of credit or other enterprise assistance;
- Promote credit policies that are open to both small-scale enterprise activities and enterprises operating in trade, commerce and other small enterprise sectors where women have higher participation rates. Technical assistance for micro enterprise development should focus more on basic training in product marketing and design concepts and on transmitting skills to increase and diversify production. Governments can also directly increase the market for micro enterprise products by improving rural and urban infrastructure.

To conclude this section, why should microfinance focus on women? What are the reasons for promoting women's participation in microfinance? Traditionally women have been marginalized. A high percentage of women are among the poorest of the poor. Microfinance activities can give them a means to climb out of poverty. Microfinance could be a solution to help them to extend their horizon and offer them social recognition and empowerment. On the other hand, thank to women's capabilities to combine productive and reproductive roles in microfinance activities and society has enabled them to produce a greater impact as they will increase at the same time the quality of life of the women micro-entrepreneur and also of her family.

The question is not whether we should focus on women or men. Both female and male play a vital role in creating income and jobs. Their capacity for innovation stimulates general economic growth. Microfinance should be accessible to both of them (male and female entrepreneurs) and offer adequate policies regarding to market interchange, access to financial services, training and technical assistance.

Donor agencies should promote studies to support local women's groups in educational and promotional campaigns and launch special studies on specific policy problems related to the micro enterprise sector, gender issues in microfinance activities. Short-term assistance might aim at increasing the productivity of women's labour by providing credit, technology, and skill training. Long-term objectives could emphasize eliminating institutional constraints which limit women's access to productive resources, creating social, technological, and economic mechanisms to reduce conflicts between women's productive and reproductive roles, as well as defining strategies to address traditional and legal barriers that hamper or preclude the active participation of women in the productive sectors of the economy.

The key issue for successful micro finance focused on women should consider them in a broader context, as a family nucleus, that is vital for societal improvement and progress. Following this idea, micro finance should provide women with specific adapted products through appropriate methodologies, which can offer competitiveness to their business but also well-being to them and their families.

7. Distributions of Rural Banks in Rwanda

In its long term economic development plan, Vision 2020 , Rwanda aims at becoming a knowledge-based economy and in this endeavor the development of the services sector is considered as a critical pillar. The sector has experienced a steady growth over the last 10 years. For instance in 2010, services accounted for 47% of the Gross Domestic Product (GDP) while agriculture and manufacturing were at 32% and 15% of GDP respectively. In the same year, the sector's average growth was estimated at 10% as a result of growth in transport, storage, communication (9%), wholesale and retail trade (8%) and financial services (24%). In terms of exports, apart from the traditional commodities (coffee, tea), Rwanda also exports transport services and financial services (insurance services) mainly to neighboring countries. In 2010 export of those particular services were estimated at USD 235M. Considering the importance of the services sector in the country's development plan, a department dedicated to support the sector was created within the Rwanda Development Board. The Services Department's primary mission is to catalyze the development of service sector for job creation and economic growth. With two (2) main divisions: the Financial Services Division in charge of financial services and Support Services Division in charge of other services but financial, the department covers the following services:

- Business services
- Communication services (excluding telecommunication)
- Construction and related engineering services
- Distribution services
- Environmental services
- Financial services
- Health and social services
- Recreational, cultural and sporting
- Transport services

(i) Priority sectors in services

Four (4) sectors have been identified as priority areas in services based on their high growth potential and the impact they can have on the economy once developed further; these include: financial services, transport, logistics and distribution services, business (professional) services and health care services. For each of those priority sub sectors, special strategies are being created with an integrated plan meant to further their development through private sector investment.

(ii) Financial services

The country's vision for the sector is to position Rwanda as a financial centre in the region. Still at the study level, the financial centre strategy is expected to be available mid 2012 with implementation starting in the 3rd quarter of the same year. The strategy will ensure the right regulatory framework is put in place for Rwanda to attract companies in the financial sector with varied services such as business transactions, brokerage and many others. Today, players in the sector include banking institutions (16), insurance companies (7) and microfinance institutions (66). The Capital market launched in 2007 and under the supervision of the Capital Market Advisory Services – CMAC - is another important player and so far 4 companies are listed. The central bank is the main regulatory institution of the financial sector in Rwanda

(iii) **Transportation, logistics and distribution service**

Rwanda today exports transportation, logistics and distribution services among others. With the plan of establishing a regional logistics and distribution hub, the sub sector is expected to grow further.

(iv) Business services

Professional services constitute another area with high potential for growth. As the economy continues to grow, support services such as professional services in engineering, architectural, legal, accounting will be in high demand. Big consulting firms such as Price Water house Coopers, KPMG, Deloitte& Touch and E&Y have already opened their offices in Rwanda and the country aspires to attract more reputable firms with varied areas of expertise to serve not only the domestic market, but also the region. The establishment of such firm will also contribute significantly to the development of the local labor force through skills transfer. A strategy to assess what needs to be done in this area to achieve the set goal, will be released in the 3rd quarter.

(v) Health care services

Attracting investments in provision of health care services is another priority area. So far the country's efforts for the sector based on MDG goals are focused on providing health care for all and fighting endemic diseases such as Malaria and HIV/AIDS. These deliberate efforts by the Government of Rwanda have so far yielded into reduced mortality and increased access to health care. In order to develop this sector further, private sector investment will be encouraged with the ultimate goal of positioning Rwanda among the best medical/health destinations. Attraction of reputable hospital chains with the expertise in the health tourism industry to come and establish in Rwanda is one strategy as well as forming strategic alliances with best hospitals abroad to supply world-class health care services. The hospitals will be serving not only the domestic but also the regional market allowing patients from beneficiary countries to access better treatment at an affordable price in the region. A strategy is currently being developed and is expected to be released in the third quarter of 2012.

(vi) Delivering on the mission, the Strategies

In order to achieve its mission, the Services Development Department will use the following strategies:

- Identification and development of opportunities for private sector investment in the priority sub sectors
- Policy advocacy to improve the investment climate for the sector
- Targeted strategic support to companies operating in the sector

At the end of each year, the performance of the department is measured based on the following primary metrics:

1. Level of private investment in the Services sector
2. Level of export in the Services Sector
3. Number of Jobs created in the Services sector

8. Origin and Growth

Rwanda's economy is growing at a healthy rate- -7.5 percent in 2010, two percent higher than the East African Community (EAC) and even more than Sub Saharan Africa (SSA). During 2010, the services and industrial sectors progressed in their recovery, while growth in the agricultural sector slowed down marginally. The country's macroeconomic framework was remarkably stable, given the difficult external post-crisis environment and Rwanda's position as a highly import-dependent, land-locked country. This was mainly achieved through a prudent fiscal stance with strong focus on priority expenditures, assisted by continued grant financing from donors. Rwanda's projected growth rate for 2011 is 7.0 percent, significantly higher than the 5.5 percent predicted for SSA or the 5.9 percent predicted for the Eastern Africa Community. All sectors are likely to grow at comparable pre-crisis levels again, but there is reason for caution. The first 2011 harvest was disappointing, and agriculture growth might turn out to be moderate. Services growth might be less as high Government spending for health, education and other services is returning to pre-crisis levels. Manufacturing remains in the midst of recovery. Leading indicators for growth, like credit to the private sector, performed less well than expected, as did growth in the construction sub-sector. Interest rates remain high. The outlook remains dependent on effects of increasing international fuel and food prices. The balance of payment continues to be vulnerable to export shocks, due to the dependence on a few export products Agriculture continues to contribute to growth in Rwanda, despite the emergence of other significant growth drivers, such as services due to its large employment weight. Featured as the special topic of the recently newly launched World Bank Rwanda Economic Update, agriculture triggered a lively discussion in the press in the following week. Rwanda's focus on agriculture, through continued public investments, has contributed to marked productivity increases and solid agriculture growth rates over recent years. Land productivity increased dramatically. The country is leading compared to other African countries with similar GDP shares of agriculture (see graph below).

The relatively high level of land productivity reflects the favorable agro-climatic potential resulting in two harvest seasons, as well as the intensive nature of the predominant agricultural production systems. In contrast, labor productivity remains low compared to these countries, albeit increasing over the last decade. This is related to the fact that Rwanda has the highest proportion of rural population, most of them engaged in labor intensive agriculture. It appears that most opportunities for future productivity gains lie in the area of making agricultural production less labor intensive, in other words less subsistence based. In comparison to other African countries Rwanda's agricultural growth is high…

In order to sustain these productivity increases in the future, and in order to fully realize the growth potential for the agriculture sector, a number of challenges would need to be addressed, including: 1) Reducing dependency on rain-fed agriculture through greater use of different models of irrigation; 2) Better erosion control and integrated soil fertility management; 3) Diversifying agriculture production, in particular agricultural export goods, for example in areas of horticulture and flowers; 4) Changing the skills profile of people employed in agriculture, to foster the creation of off-farm employment such as agro-processing and other value chain activities, and 5) Better post-harvest management, including developing a market-based food crop distribution system to contribute to country-wide food security. Continued agriculture growth through the channels outlined above will benefit agriculture growth and increase food security, but most of all will sow the seeds for higher overall economic activity.

Over the past ten years, Rwanda has transformed herself from a failed state to being ranked as one of the fastest global business reformer and the most improved country in Africa by the World Bank. While the road to prosperity is a long one, entrepreneurial investors are drawn to the country by the belief that the country offers their new ventures the greatest opportunity for success. BRD is committed to the service of poverty reduction and boosting the national economy. Development Bank of Rwanda is a Public Company Limited by Shares, with a share capital of RWF 7,808,931,000, registered at the Officer of the Registrar General, whose company code n° 1000003547; while its incorporation certificate issued on 7/7/2011 and a banking license n°003 was issued by the National Bank of Rwanda on August 11, 2009. BRD was incorporated on August 5, 1967. For more than four decades, BRD has been the sole provider of long term finance and has significantly facilitated the emergence of different productive enterprises in the private sector. The Bank's operational history is subdivided in five following phases: The objective of this acquisition is to achieve sustainable growth by making BRD a stronger and better positioned bank which provides long-term loans, housing loans, mortgage re-financing and other financial services that will improve access to finance in Rwanda. Since March 2011, BRD Advisory Services (BAS Ltd) and BRD Development Fund (BDF Ltd) companies were merged to form a new company called BDF Ltd. The two former companies were BRD wholly owned subsidiaries tasked with the mission of providing services and products that boost the development of SME's in Rwanda. The new company remained subsidiary to BRD and streamlined the previous mission. The merger was decided by the BRD Board of Directors meeting held on 17th March 2011 with the aim of improving the efficiency of operations, the quality, the range of services and products to be provided by the new company, BDF Ltd.

8.1. Sustaining Growth and Innovation Phase (2010-2014)

As the Government of Rwanda's investment arm, BRD's financial development objectives will focus on the priority sectors of the economy. It aims at becoming the first stop for all long term investments into Rwanda's key sectors and to be the prime driver of viable private sector investments. BRD has long been and is still the main financier of medium and long term investments, with a market share of 40%. It also has a stellar record in honoring credit lines, in financing high risk sectors and a strong debut in microfinance. BRD plans to inject Rwf 160 billion into the Rwandan economy over 2010-2014 and grow its portfolio from Rwf 36.1 billion in 2009 to over 178 billion in 2014. The bulk of these resources will focus on stimulating economic growth, accelerating Rwanda's development agenda and reducing poverty. This investment will create nearly 150.000 jobs which will impact livelihoods on more than 1,000,000 people. BRD want to confirm its triple role of being "Financier, Advisor and Partner), by setting up two subsidiary companies which are BRD Advisory Services (BAS) and BRD Advisory Services (BDF). Whereas BRD will continue to develop the country through direct investments, BAS and BDF will offer advisory services and Fund management services respectively for a sustained momentum of SME development. The Bank will also diversify its portfolio by financing real estate and developing trade finance facilities. BRD wants to build a customer care culture by always anticipating and meeting the client expectations, and bringing its services closer to the customer by setting up four branches in Kayonza (Eastern Province), Musanze (Northern Province), Karongi (Western Province), and Huye (Southern Province).

8.2. Growth and Innovation Phase (2000-2009)

This phase ensues from the necessity for the Bank to contribute to the recapitalization and the monetization of the rural area, in the increase of the export against of challenges of the Rwandan Economy imposed by the needs of fast and long-lasting growth to fight poverty. In fact more than 90 % of the population lives in the rural area and mainly on agriculture. In order to enhance the Bank mission of development, in 2005 the Government of Rwanda mandated BRD with a mission to become the "Financier" of Rwanda's development. Since then BRD has been transforming itself in order to be able to play its crucial role in Rwanda's development. BRD 2005-2009 Strategic Operating Plan translates BRD mission and vision to become the most profitable bank at the service of poverty reduction. This big and important role involves a more aggressive approach in the research for the profitable projects and in the creation of new instruments of financing which can serve large number of Rwandese. To do that, the Bank created two additional instruments to diversify its activities and generate products necessary to balance the level of its profitability. These new products concern: A Microfinance Department and a Leasing Unit opened respectively in 2002 and in 2007.

Due to the BRD 2005 -2009 strategic Operating Plan, the Bank plans to inject Rwf 132 billion in to the Rwandan economy over 2005-2009 and attain a total loan portfolio of Rwf 74 billion by 2009.

8.3. Post-Genocide Phase (1995-2000)

The events of the 1994 genocide led to catastrophic results that followed. The bank continues to shoulder a burden of more than 50 % of its portfolio constituting non- performing loans consequential from the 1994 genocide. An amount of loans totaling FRW 6, 8 billions, 115 operations; FRW 6, 7 billion in 112 lines of credit; FRW 156, 4 million in equity shares in 3 productive ventures. The loans were mainly invested in modernization and rehabilitation of ventures to the tune of FRW 13, 4 billions, creating an employment of 8.923 people and an added value to the economy of about FRW 8 billion. The war paralyzed the rural areas and revitalization of the activities after 1994 concentrated in the capital city mainly in the secondary and tertiary sectors. This period was a reorganization and consolidation phase.

8.4. Maturity Phase (1988 - 1994)

During this period, the Bank disbursed loans totaling: FRW 4, 6 billion in 873 lines of credit; FRW 84, 5 million in equity shares in 7 productive ventures. It generated an investment volume of FRW 15, 7 billion with a creation of employment for 9.094 people and value added to the economy of FRW 8, 5 billion. The priority areas for the loans were agro-industries mainly the sectors of tea and manufacturing, enabled by low cost financial resources available to small and medium scale enterprises in agribusiness; artisans and micro- projects.

8.5. Establishment and Development Phase (1968 - 1987)

During the years 1968 to 1970, the Bank was being established and no projects were financed. In the four years that followed, the Bank recorded major loans on vehicles (pick-ups) and grinding mills. The financing of the vehicles extended all over the country and marked a crucial step towards improving accessibility of goods in the country. Effective from 1974, the bank embarked on aggressive financing of different sectors of the economy. An amount of loans totaling FRW 6, 6 billion has since been extended to 501 operations. FRW 317 million invested in equity shares with 23 companies. RW 6, 3 billion in loans to 478 borrowers. This meant an investment impact of about FRW 12, 6 billion with a creation of employment opportunities for 8.400 people and cumulative added value of FRW 25, 2 billion. The bank has financed about 80% of the country's medium and long term loan portfolio in the productive ventures. The Development Bank of Rwanda put great products in front of their customers. These Products are:

(i) Investment Financing

- Loans;
- Leasing;
- Equity;
- Refinancing;
- Capacity Building;
- Advisory

(ii) Retails Financing

- Current Accounts
- Saving Accounts;
- Trade Finance;
- Mortgage Financing;
- Salary advance
- Temporary overdraft
- Home equipment Financing
- Vehicle loans

To bring services closer to the people, the bank maintains branches at the following locations:

- Main Branch - Kigali
- Kayonza Branch - Kayonza, Eastern Rwanda
- Musanze Branch - Musanze, Northern Rwanda
- Nyanza Branch - Huye, Southern Rwanda

9. Impact of Rural Banks and Rural Development

A development bank is one that focuses on economic growth and transformation through long-term financing of development projects unlike commercial banks that are focused on collection of deposits and provision of short and medium term or consumer lending. In Rwanda, the Development Bank of Rwanda (BRD) is such a bank, mandated to reducing poverty through financing of priority sectors of the economy and serving any interested investor whose goal is economic returns but also poverty reduction. "

The difference between BRD financing and that of the commercial banks is that we are the government's investment arm striving for poverty reduction whereas commercial banks are private business organizations aiming at profit maximization," On regulation, the bank's operations are regulated by the Central Bank and compliance is a high priority through periodic prudential checks conducted by the Central Bank.

"Compliance to the general regulatory frame work of the financial sector is BRD core value and it is committed to do what it takes to go by the required standards."

9.1. Significance to Nation's Development

BRD's contribution to the Economic Development and Poverty Reduction Strategy (EDPRS II) is broad and unlimited to the financing of sustainable development in the country.
'BRD financing approach considers the national priority sectors that can foster the timely delivery of the MDGs (Millennium Development Goals) and the general community development." Establishment of strategic partnerships with other development agents and stakeholders through fund mobilization and extension of financial facilities through refinancing

SACCOs which have a large network in the rural areas has greatly improved the bank's delivery of the developmental milestone. Technical capacity building to its clients has greatly improved through the establishment of subsidiary companies such as Business Development Fund (BDF) and BRD Insurance Brokerage (BIB) that deliver business development services and training on best business management practices.

9.2. Capitalization

BRD, whose source of funds is the shareholder's equity, development partners, grants and lines of credit, had an initial capital of Rwf 7.8 billion during its launch, which has grown to over Rwf 42 billion today. Its preferred minimum-lending sum is presently Rwf 15 million.

BRD has financed individual projects worth Rwf 7 billion and below in the latest approvals. However, the highest amount depends on the bank's net worth limited to five percent and project investment requirements.

9.3. Export Promotion

Export promotion is BRD's long primary focus with the annual coffee campaigns, coffee and tea plantations and tannery products, attracting a lot of financing. The bank has also financed some food and beverage companies including Inyange Industries and Nyirangarama Industry.

The bank has also initiated talks with stakeholders on how best the bank can boost its financing to the mining industry that is a significant foreign exchange earner. Some of the other companies that have obtained financing through the bank include Trust Industries that makes tissue paper through recycled paper, and detergents, Crystal Bottling that makes soft drinks in Bugesera District as well as the East African Granite in Nyagatare district. These industries have a net impact of reducing our imports of similar goods and or their close substitutes thereof and hence impacting positively on the national trade balance. The bank focused on increasing intervention in industrial investments in order to catalyze the general industrial transformation of the economy. Going forward, export promotion projects will be given more attention by the bank such that we contribute towards reducing the trade deficit in our economy.

9.4. Value-chain Financing

The bank has financed both primary and secondary production by focusing on value addition. Small-scale farmers benefit from the financing when they are organized in cooperatives and individual projects. Milk Collection Centers are an example of the schemes that targeted the smallholder livestock farmers. Value chain financing is currently the main focus to develop so that market problems for primary agricultural products can be minimized. This approach ensures the good pricing of the products and quality standards of the consumer products to be processed.

10. Relevance of the Study

The study has developed in its introduction by defining the concept of rural banking and rural development. The researcher has bring out the importance of rural banking in the rural areas and its implications to rural people The researcher has also define Rural livelihood as an occupation, as source of income and livelihood in the rural areas that include agricultural work and other allied rural employment such as labor, home industry etc. A livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living. The study assesses the capital endowments and production activities of households which interact to determine the well-being of households Since the focus of the Demography and Development is on immigration from poor countries to richer ones and, to a lesser extent, to other poor countries. Population's age structure is affected by the rates of change that occur across age groups on the three measures of fertility, mortality, and immigration. Social interaction is the process by which people act toward or respond to other people and is the foundation for all relationships and groups in society. Social structure is the framework of societal institutions (politics, and religion) and social practices (social roles) that make up a society and establish limits on behavior. The study has examined the Economic conditions in developing countries, thus will determine the Status of a country's financial position at a specific period of time. Economic condition is used for statistics and it involves unemployment rates, stock market data, and GDP information, among other metrics. It change over time in line with the economic and business cycle, as an economy goes through expansion and contraction. The study sights to determine the number of borrowers with poverty alleviation objectives in the area; assess the extent of awareness and participation of rural people in microfinance activity, and examine the impact of the cooperative on farmers' income, farm size, production and productivity. Multi - stage random sampling method was employed in the selection of communities and respondents. A well-structured questionnaire was used to elicit responses on socio - economic characteristics and other relevant variables from a random sample of 300 respondents comprising beneficiaries. Conventionally, financial institutions are composed of organizations such as banks, trust companies, insurance companies and investment dealers. Almost everyone has deal with a financial institution on a regular basis. The main purpose of the rural bank is to provide banking and credit facilities to the rural people. The regional rural banks have been conceived as: (a) an answer to meet the diverse and heterogeneous needs of rural people with different socio-economic and agro- geographical conditions, (b) designed to specific economic and occupational groups, i.e. the small and marginal farmers, agriculture labourers, artisans etc. and (c) to be a catalytic agent to develop the rural economy by providing not only credit but also other facilities. They are supposed to be a nucleus of rural development in view of their relatively low cost structure, local ethos and professional management. This is not a point of consideration that Micro financial services have capability to offer better services than conventional banking services and carry out the needs of the underprivileged people. The significant factor is that external Micro financial services should join hand to the running system of lending and/or borrowing money in rural areas instead of throwing them out. In this way the poor people especially women who require the fund to run their business and family activities in a well-organized manner will get benefited more. The need for rural development is to reduce the nature of poverty.

The present study states some more facets of rural poverty. BRD has long been and is still the main financier of medium and long term investments, with a market share of 40%. It also has a stellar record in honoring credit lines, in financing high risk sectors and a strong debut in microfinance. BRD plans to inject Rwf 160 billion into the Rwandan economy over 2010-2014 and grow its portfolio from Rwf 36.1 billion in 2009 to over 178 billion in 2014. The bulk of these resources will focus on stimulating economic growth, accelerating Rwanda's development agenda and reducing poverty. The difference between BRD financing and that of the commercial banks is that we are the government's investment arm striving for poverty reduction whereas commercial banks are private business organizations aiming at profit maximization," On regulation, the bank's operations are regulated by the Central Bank and compliance is a high priority through periodic prudential checks conducted by the Central bank. "Compliance to the general regulatory frame work of the financial sector is BRD core value and it is committed to do what it takes to go by the required standards

11. Summary and Conclusion

Development Bank of Rwanda has a significant achievement by concentrating on national priority sectors of the economy. For instance, its contribution to the development of tourism industry through financing of accommodation facilities like hotels, Guesthouses and apartments has been noteworthy. Other sectors including education, health, real estate and agriculture have also been scaling up in EDPRS- 2.

The bank has identified limited skills of clients when compiling their business ideas into bankable business plans and inefficient management skills during and after project implementation as a major drawback. However, to overcome this hurdle, BRD offers advisory services and capacity building through business development centers (BDCs) financed by BDF. There is also a variety of guarantee funds to cover the risks of good projects with insufficient collateral that have an impact on sustainable development. Some of the guarantee funds include Agriculture Guarantee Fund (AGF), SME Guarantee Fund, Business Plan Competition (BPC) and 'Hanga Umurimo' Guarantee Funds for the youth and women. Secondly, inefficient management of financed projects highly affects profitability and the overall performance of few projects is not maximized. These inefficiencies include fund diversion, poor bookkeeping, performance reports and failure to separate business and family. These will be mitigated by extensive capacity building programs on the basic skills. BRD appreciates government in delivering national sustainable development through the identification of the preferred priority sectors of the economy and the enabling regulatory environment that protects both the bank's clients and the shareholders' interest.

In conclusion, the bank is equally grateful to clients for the commitments and initiatives taken to implement good developmental projects focused on reducing poverty and encourage all investors to come for business.

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