

# Community Lending Programme.



Consultation Document

Rwandan School Village Project – RSVP:  
Charity N° SCO38526.  
July 2009



## Background

Rwanda is one the poorest countries in the world with a [Human Development Index of 161](#) out of 177. For example, 60.3% of the population live below \$1 and 87.8% below \$2 a day, 39% of births are attended by a skilled health professional and there is 1 doctor for about 20,000 patients.

The Rwandan School Village Project (RSVP) started a partnership with the Mihabura Primary School. The partnership is a clear commitment to equip the local population with the right tools to address their poverty related problems. Since RSVP's policy is to invest for a sustainable development, education rightly became the very first initiative of the partnership.

Under this partnership, RSVP has provided lunch meals to pupils (39 in 2007, 123 in 2008 and 243 in 2009) since May 2007. Curriculum books have also been distributed each year in different classes. The aim was to reduce the absenteeism rate and increase the passing rate in the final national exam. In addition to meals and books, RSVP also runs a HIV awareness programme. Three study trips have been organised to hospitals where children were able to get reliable information about HIV from qualified medical staff.

Although the different programmes contributed to an increase in the national test passing rate, some pupils from very poor families couldn't afford to go to secondary school whereas others managed to report due to their agonizing family sacrifices. Such sacrifices include selling part of the land, livestock and/or taking short term loans at very high interest rates etc. It is not uncommon that this lack of money causes delays, and in some cases drop outs, especially when parents do no longer have anything else to sell.

RSVP's bursary scheme, which includes 6 children, 3 boys and 3 girls who are selected freely and democratically by their peers, teachers and parents/Guardians, has therefore been answers to prayers for only a tiny proportion of the children in boarding school: n= 6 out of 23. Hence the real outcries for a scheme able to help families which can afford the school fees only when they are given enough time to add up their pennies.

Since the Rwandan law regulating financial system does not allow charities (known as Non governmental organisation: NGO) to collect savings or give loans, RSVP must thus initiate such a scheme in partnership with a registered microfinance institution. The Amasezerano Community Banking (ACB) has experienced in working with poor people and offers different affordable financial services.

## Education support through self-help groups

The self help groups approach has been used by different development agencies to provide loans to the poor. The target group is made of people who could not secure loans from formal financial system due to lack of substantial collateral.

The prospective beneficiaries form groups on mutual trust and mutual collateral. They live in the same area and know each other well. Group members get loans only after training on group management, savings and use of loans. The initial loaned amount is small but it increases over time depending on the repayment history of the group.

### Advantages

- Availing loans to people who are excluded from the formal financial sector.
- Helping beneficiaries to start or keep businesses and hence be able to repay loans
- Group members are exposed to various trainings that help them better manage loans and savings.

### Disadvantages

- In some cases, the repayment rate has proven very low. This is mainly due to poor selection: members are very poor and unable to use their loans effectively or the funds received are diverted and used in other purposes. Such unplanned purposes increase risk.
- Wrong perception by group members concerned: In case where the scheme is associated with charities, beneficiaries tend to consider the funds as a gift and not a repayable loan.
- Most institutions charge higher interest on group loans than individual ones. The high interest is mainly linked to high risk associated with the loan. However this is somehow contradictory: on one hand the product is to help poor people who are excluded from formal financial sector but on the other hand they are highly charged.

In view of the above advantages and challenges, the Community Lending Programme must thus be designed in such a way it rewards members who play by the rules, ensures a 100% repayment rate and offers loans at small or negligible interest rates.

## Description of the scheme

- Self help group membership: The membership is made of parents whose children attend secondary schools. They should be economically active. That means they have an income generating activity (or any other capacity) that helps them paying for their children's fees if given enough time to add up their pennies. They should also know and trust each other.
- Initially, loans will only be for school fees purposes: the scheme is for education purpose until ACB s.a. opens its branch in Cyanguu. Then loans will be extended to other purposes.
- In order to avoid loan diversion, funds will be paid directly to children's schools accounts. Parents will only get receipts as a proof of loan.
- The loan duration will be 3 months which coincides with school term dates.
- Repayments will be done in instalments and the frequency will depend on the choice of each group and arrangements agreed with ACB.
- New loans will only be given if the previous loan has been recovered in full.
- Small interest will be charged to avoid any complacency.
- The scheme will start with a small number of parents as a pilot with the expansion depending on favourable assessment.

## Terms and Conditions

ACB accepts the responsibility to manage and loan out the initial deposit worth between 500,000 and 1,000,000 RFW to people enrolled on RSVP's programmes.

ACB will also send a member of staff to brief the recipients about the terms and conditions of the business before the scheme is launched.

The starting population will be no more than 20 people, which will be split into two groups, each with a management committee. This committee will be in charge of loan recovery and will deposit the money recovered on the designated ACB's account on the agreed dates.

In case of delays in repayments, ACB will reach the individual concerned through the group's president. If further action is required, then ACB will send a member of staff to speak to the entire group. Together they will decide on the resolution and impact on future lending.

Loans to group members are interest free and must be recovered in full in three months.

Part on the fund not on loan will generate ...<sup>1</sup>% interest for RSVP. ACB will take ...<sup>2</sup>% of the capital in circulation (on loan) as an administration fee

The lending scheme will in the first instance run on probation for six months. During this period, ACB will identify and provide the management plan of the potential loopholes. ACB will also report the progress of the Community Lending business to the Rwandan Coordinator every 3 months.

All the above dealings will be managed by a designated ACB's employee and Rwandan Official. The latter will directly report to the Rwandan Coordinator. Any areas of dispute not solved between the two will trigger discussions between ACB's Director General and RSVP's Rwandan Coordinator.

---

<sup>1</sup> The rate will be negotiated between RSVP and ACB

<sup>2</sup> The rate to be negotiated between RSVP and ACB