



BRINGING  
SMART  
POLICIES  
TO LIFE

MEMBER SERIES: ENHANCING FINANCIAL INCLUSION IN RWANDA

# THE ROLE OF SOCIAL PROTECTION PROGRAMS



# CONTENTS

---

INTRODUCTION	3
FOREWORD	4
SUMMARY	5
KEY MILESTONES	5
SUMMMARY	6
SOCIAL PROTECTION PROGRAMS IN RWANDA	6
VISION 2020 UMURENGE PROGRAM (VUP)	7
THE ROLE OF VUP IN FOSTERING FINANCIAL INCLUSION IN RWANDA	8
CONCLUSION	10

---

## ACKNOWLEDGMENTS

---

This publication is financed through AFI's Multi Donor Policy Implementation Facility (MD-PIF) with support from the French Development Agency (AFD), the German Federal Ministry of Economic Cooperation and Development (BMZ), and the Ministry of Finance of the Grand Duchy of Luxembourg.

## INTRODUCTION

The Alliance for Financial Inclusion (AFI), a network owned and driven by members, has a shared objective to increase access and use of quality financial services by facilitating the implementation of policy changes at the country level. This is achieved through a cooperative, bottom-up approach that promotes peer learning and knowledge exchange.

AFI's ethos of cooperation and knowledge sharing is better served when the financial inclusion journeys of our members are recorded and shared with the network and beyond. There are enormous lessons from the network that highlight and amplify the pursuit of financial inclusion enablers that are unique to countries and regions. It is imperative that these lessons are shared and that we hear from members how AFI's peer learning approach and in-country implementation have been instrumental in transforming financial inclusion in their countries.

One of the key benefits of a diverse network like AFI is the opportunity to highlight multiple approaches to tackling the common goal of reducing financial exclusion. The member series showcases the financial inclusion achievements and key policy lessons that can benefit other members pursuing similar objectives. This member series publication shares the practical lessons and financial inclusion journey of one of our members as they addressed their unique financial inclusion challenges.

I wish to take this opportunity to thank the National Bank of Rwanda for sharing their experience in using social protection programs to transform the financial inclusion landscape in Rwanda. It is my sincere hope that Rwanda's experience will provide useful practical lessons to the AFI network.

**Dr. Alfred Hannig**  
Executive Director, Alliance for Financial Inclusion





## FOREWORD

Financial Inclusion plays a significant role to the economic development and poverty alleviation. The challenge is that vulnerable people cannot be reached by formal financial service providers and this makes them naturally excluded. Rwanda has set the Vision 2020 seeking to fundamentally transform Rwanda into middle income country by the year 2020. Vision 2020 set the stage for the financial sector reform process in Rwanda.

The Rwandan Financial Sector Development Program (FSDP) was launched in 2006 in order to develop a stable and sound financial sector that is sufficiently deep and broad, capable of efficiently mobilizing and allocating resources to address the development needs of the economy and reduce poverty.

FSDP had the objective of enhancing access and affordability of financial services; enhancing savings mobilization; developing appropriate policy and legal framework for non-bank financial institutions; and organizing and modernizing the national payment system. The FSDP acknowledged the need for credible baseline data on access to finance and the Government of Rwanda, through the National Bank of Rwanda (BNR), requested FinMark Trust to assist in conducting the Finscope 2008 to provide baseline data on the status of access and usage of financial services. . BNR hosted Finscope Rwanda and facilitated its implementation.

Finscope 2008, revealed that 52% of Rwandans were financial excluded from both formal and informal financial products and services. Only 14% were banked, 7% were using other non-bank formal financial services while 26% were informally served. This situation was alarming and required many interventions to boost financial inclusion in Rwanda.

It is from this situation that came the idea of Umurenge SACCO. In the same year, the government of Rwanda started Vision Umurenge Program, a social protection program aiming at eradicating extreme poverty by 2020.

Right after 4 years, the results of Finscope 2012 depicted that 22.8% of Rwandans were banked; 19.2% were formally served by other non-bank financial institutions; 29.8% were informally served and 28.1% were totally excluded. In 2016, Finscope revealed that 89% of Rwandans are financially included, 68% being formally included and 11% (0.7 million) were financially excluded. The same survey mentioned that the financially excluded population was most significantly skewed towards vulnerable groups.



These are adults from Ubudehe category 1, women, 16 - 17 years age and 60 years and older categories and adults without formal education. These are the groups that formal financial service providers would not easily reach and they have a common challenge of poverty.

To address the issue of poverty, the government of Rwanda introduced Vision Umurenge Program (VUP). The VUP is organized around three components. The first component revives public works but planned using community-based participatory approaches to build community assets and create off-farm employment infrastructure. The second component innovates with credit packages to tackle extreme poverty as well as to foster entrepreneurship and off-farm employment opportunities. The third component includes direct supports to improve access to social services or to provide for landless households with no members qualifying for public works or credit packages.

VUP beneficiaries get transfers and payments through Umurenge SACCO account or bank account. This has significantly contributed to the increase in formal inclusion and it is evidenced by the number of VUP beneficiaries that kept raising since 2008. The total number of households benefiting from direct support is 638,442, while 448,630 individuals, groups and cooperatives received VUP financial services and 276,182 participated in VUP public works. All these beneficiaries have access to transaction account as a result of VUP. It is of paramount importance to mention that not only have these people been formally financially included but they have also managed to save thorough public works, were financially educated and managed to move from extreme poverty.

**Hon John Rwangombwa**  
Governor, National Bank of Rwanda



## KEY MILESTONES

Vision 2020 launched  
by H.E Paul Kagame

2000

Rwandan Financial Sector  
Development Program  
(FSDP) was launched

2005

Financial Sector  
Assessment Program

2006

The Vision 2020  
UMURENGE program launched  
Economic Development and  
Poverty Reduction Strategy  
(EDPRS 1) launched

Second Finscope Survey  
Conducted

2012

2010

Mobile Money Services  
launched in Rwanda

2008

First Finscope  
Survey Conducted

Economic  
Development and  
Poverty Reduction  
Strategy (EDPRS 2)  
launched

Third Finscope  
Survey Conducted

2013

2015

The New VUP financial  
services scheme is introduced

2016



## SUMMARY

Rwanda has placed tremendous efforts in promoting financial inclusion. An evidence of this is the government's will to put in place policies that promote financial inclusion and its vision to achieve a high-level of financial inclusion. Rwandans would not use financial services without first having access to the services of financial institutions. Before 2008, only banks and a small number of micro finance Institutions could provide financial services to Rwandans. This made it difficult for people in rural areas to have access to financial services. To address this issue, the government of Rwanda introduced UMURENGE SACCO in each sector and launched mobile money services in 2010. This enabling environment caused the level of financial inclusion to skyrocket from 48% in 2012 to 89% in 2016.

Various researchers have showed evidence that financial inclusion is of paramount importance. **Han & Melecky (2014)** mentioned that financial inclusion provides individuals with the opportunity of having a safe place to save for the future. **Bruhn & Love (2014)** stressed that individuals who are not financially excluded are able to invest in education and launch businesses, which ultimately contributes to poverty reduction and economic growth. As quoted by **Kuada (2019)**, financial inclusion enhances the ability of poor families to increase their capacity to absorb financial shocks, smooth consumption, accumulate assets and invest in components of human capital, such as health and education, and/or take advantage of promising investment opportunities in their economies.

There is no doubt that financial inclusion plays a significant role to the development of any country. The key issue is that poor people are naturally excluded from accessing financial services. There are many consequences to financial exclusion; one is that lack of access or not having a transaction account makes it difficult for the poor to receive income and to make payments, or to receive credit that they sorely need to help them navigate the troughs and peaks of maintaining a household budget. As a result, the poor resort to other alternatives such as moneylenders, payday loans and pawnshops that charge very high interest rates. To eradicate poverty, the government of Rwanda has put in place the Economic Development and Poverty Reduction Strategies (EDPRS); EDPRS 1 started from 2008 to 2012 and EDPRS 2 began from 2013 to 2018.

Under EDPRS 1, the Vision 2020 Umurenge Program (VUP) was the second flagship program that aimed to eradicate extreme poverty by 2020. However, the VUP started as a pilot program covering one of the poorest Umurenge in each district and thus operating solely in specific rural areas. The VUP was aimed at providing a decentralized, integrated program designed to impact on rural poverty reduction.

Under EDPRS2, the priority Area 3 was to enable graduation from extreme poverty. This priority area stressed that the expansion of the Vision 2020 Umurenge Program (VUP) would focus on the poorest sectors of the districts, given the widespread nature of rural poverty and the budgetary implications of relying on cash transfers. However, it was noted that sustained graduation from poverty would be achieved by ensuring stronger linkages to complementary public program and private sector job opportunities, to ensure that households are able to strengthen their livelihoods.

## SOCIAL PROTECTION PROGRAMS IN RWANDA

There are different initiatives for eradicating poverty in Rwanda that target different vulnerable groups.

These include programs that provide support to genocide survivors, demobilization and reintegration of soldiers, rehabilitation of street children, people with disabilities, returnees and refugees, as well as a blended food program and the Vision Umurenge Program; the latter will be our focus among all the mentioned programs.



A savings group members counting the group's savings in Bugesera, Rwanda

## VISION 2020 UMURENGE PROGRAM (VUP)

Rwanda’s main national social protection program is the VUP, run by Ministry of Local Government under the Local Administrative Entities Development (LODA). It has three components:

- 1 a regular cash transfer to very poor households with no labor capacity (‘VUP Direct Support’),
- 2 a public works program for very poor households who are able to work (‘VUP Public Works’) and
- 3 a microcredit scheme that provides small loans at low interest rates to individuals or groups (‘VUP Financial Services’).

Only households classified as Ubudehe Categories 1 and 2- the two poorest categories in the six-point ranking determined by local communities in their own neighborhood are eligible for Direct Support or Public Works. Households in Ubudehe Category 3, as well as those in Categories 1 and 2, may apply for a micro loan. Households ranked in higher categories may also apply for a micro loan provided that they do so as part of a group that includes Ubudehe Categories 1 and 2 households.

Ubudehe refers to the long-standing Rwandan practice and culture of collective action and mutual support to solve problems within a community. According to 2014 LODA’s Ubudehe Categorization, households are put in categories based on their social-economic status, and their property in terms of land and other belongings and what the families’ breadwinners do to earn a living.

The categories are as follows:

<b>Category 1</b>	Families who do not own a house and can hardly afford basic needs
<b>Category 2</b>	Those who have a dwelling of their own or can rent one but rarely get full time jobs
<b>Category 3</b>	Those who have a job and farmers who go beyond subsistence farming to produce can provide employment to dozens of people
<b>Category 4</b>	Those who own large-scale business, individuals working with international organizations and industries as well as in public servants.

The VUP began in mid-2008 in 30 sectors, one in each district of the country. Each subsequent year, every district selected its next poorest sector for inclusion in the program, which resulted in an additional 30 sectors participating per year (60 sectors active in VUP from mid-2009, 90 from mid-2010 and so on).

After the Integrated Household Living Conditions Survey or Enquête Intégrale sur les Conditions de Vie des ménages (EICV3) household survey, and in accordance with the revised social protection strategy, the government decided to enable districts to roll out the program to more than one sector per year, so that as many poor, labour-constrained households as possible could be enrolled in the VUP even if they did not live within the poorest sectors. By July 2014, 330 out of 416 sectors (almost 80%) were participating in the VUP, of which 121 offered only Direct Support; 30 offered Direct Support and Financial Services; and the other 179 offered all three components.



Homes built for elderly Genocide survivors in Huye district, Rwanda

# THE ROLE OF VUP IN FOSTERING FINANCIAL INCLUSION IN RWANDA

As mentioned in the introduction, VUP has three components: Public Works, Direct Support and Financial Services component or loan component. It is worth noting that all the beneficiaries receive the funds transfers through an account opened in an UMURENGE SACCO. There is no cash payment through VUP. This makes it easy for all the beneficiaries to have a transaction account, hence fostering financial inclusion in Rwanda.

## A. PUBLIC WORKS

Public works component of the VUP uses a community based participatory approach to build community assets and create an off-farm employment infrastructure. Public works include mainly preparation of radical terraces and roads construction and maintenance.

Public works is the component of VUP that has helped many Rwandans become employed and earn an income. From a financial inclusion perspective, this component has helped to considerably increase the number of households with transaction account. These poor households would otherwise not have access to financial services, as they were unemployed. It is of paramount importance to note that there is no gender gap within public works as the percentage of female-headed households continued to increase over the years. This increase was supported by the government’s will to empower the women in Rwanda.

One of the factors that encouraged women participation in the public works program is the flexible working hours program for women, which allows women to complete

their given tasks throughout the week and work any time during the day. This makes it easy for them to allocate their time between caring for their households and focusing on their respective tasks allocated to them under the public works program. Supervisors would only need to monitor whether the assigned work was completed within the agreed deadline. The most important benefit of this component is not merely that thousands of accounts were opened but also the fact that a culture of saving has been imparted to Rwandans. Public workers under this program are encouraged to save 30% of their total income, which makes it easier for them to start their own small businesses and be resilient in case of financial shocks and changes.

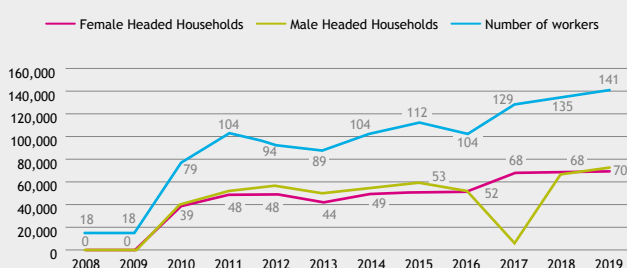
## B. DIRECT SUPPORT

This is a component of VUP that aims to improve access to social services or to provide for landless households with no members who qualify for public works or credit packages. This is done through unconditional support to expand health and education, coverage as well as to encourage the development of handicrafts skills or social service activities.

The purpose of the VUP Direct Support scheme is to protect households with no workers from extreme poverty. These are specifically households with no worker in Ubudehe Category 1. The amount of direct support depends on the number of individuals in the households and the monthly payment is made directly to the beneficiaries’ accounts through formal financial institutions such as banks and SACCOs.

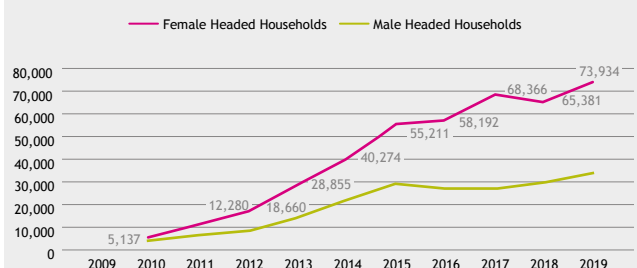
Several Rwandans experiencing extreme poverty are benefitting from the program. The increase in the number of beneficiaries does not mean that the level of poverty has been increasing over the years. In fact, it means that the program reached many people in all corners of the country. At the beginning, this started in 30 pilot sectors i.e. one sector in each district. The program expanded to reach all poor people in Category 1 without workers in the households. The support was provided monthly through accounts opened in SACCOs or banks.

FIGURE 1: NUMBER OF HOUSEHOLDS INVOLVED IN PUBLIC WORKS



Source: Local Administrative Entities Development Agency (2008-2019)

FIGURE 2: NUMBER OF HOUSEHOLDS RECEIVING DIRECT SUPPORT



Source: Local Administrative Entities Development Agency (2009-2019)



The program has recorded a significant increase in the number of beneficiaries over the years, currently 141,189 households are receiving direct support compared to 18,304 households that received direct support in 2008. Finscope 2016 revealed that the gender gap in formal financial inclusion stood at 11%. VUP is making tangible contributions to closing gender gap as 67.5% of women participated in public works compared to 32.5% men; 66% of women got direct support compared to 34% men and 48% of women benefited from financial services compared to 52% men. The big share of female headed households benefitting from the direct support program is attributable to the historical marginalization of women in the country, however this is being addressed by the government of Rwanda through putting in place policies that aim at economically empowering women. It is worth noting that VUP contributes to women financial inclusion.

### C. VUP FINANCIAL SERVICES

The Financial Services component of VUP provides support through loans to eligible beneficiaries to develop sustainable livelihoods. The credit scheme under VUP-financial services is being implemented in partnership with Umurenge SACCO to reduce poverty through the financing of income generating activities.

The scheme can be divided into two: the old scheme and new scheme. The old scheme run from 2009 to 2014, while the new scheme began in 2015 to date. The major difference between the two schemes is the interest rate charged on the loans; under the old scheme the interest rate charged was 2% per annum, while under the new scheme the interest rate charged is 11% per annum.

As highlighted in Table 1, many poor Rwandans who could not receive loans from any other financial institutions were able to access credit from the VUP Financial Services component. The data in the table above further shows that more beneficiaries received loans as members of groups and cooperatives compared to those that received loans as individuals.

From 2015, the annual VUP Financial Services interest rate increased from 2% to 11%. This increase in the annual interest rate resulted in a reduction in the number of beneficiaries. Beneficiaries of VUP Financial Services totaled 293,944 from 2009 to 2014 and 154,686 from 2015 to 2019. Within one year, the number of beneficiaries decreased by 47.3%. Fortunately, there is a recommendation from the government that the interest rate should be reduced back to 2%. Implementation of this recommendation is currently on going.

TABLE 1: FINANCIAL SERVICES: OLD SCHEME

CATEGORY OF LOAN	NO OF LOANS	MALE BENEFICIARIES	FEMALE BENEFICIARIES	TOTAL BENEFICIARIES
Individuals	46,891	28,178	18,938	47,116
Groups	22,021	115,597	107,135	222,732
Cooperatives	416	13,426	10,670	24,096
<b>Total</b>	<b>69,328</b>	<b>157,201</b>	<b>136,743</b>	<b>293,944</b>

Source: Local Administrative Entities Development Agency (2009-2014)

TABLE 2: FINANCIAL SERVICES: NEW SCHEME

YEAR	INDIVIDUAL LOANS	GROUP LOANS	COOPERATIVE LOANS	TOTAL LOANS	MALE	FEMALE	TOTAL BENEFICIARIES
2015	2,929	518	21	3,468	5,450	5,650	11,100
2016	18,984	1,762	93	20,839	21,799	20,601	42,400
2017	16,208	1,989	158	18,355	19,340	17,830	37,170
2018	18,817	1,056	103	19,976	18,856	20,935	39,791
2019	13,415	839	49	14,303	13,903	10,322	24,225
<b>Total</b>	<b>70,353</b>	<b>6,164</b>	<b>424</b>	<b>76,941</b>	<b>79,348</b>	<b>75,338</b>	<b>154,686</b>

Source: Local Administrative Entities Development Agency (2015-2019)



## CONCLUSION

The VUP has played an important role in reducing poverty and increasing financial inclusion in Rwanda. Results from the EICV 4 survey indicated a substantial reduction in poverty and improvement in other socio-economic and demographic indicators. The survey revealed that poverty stood at 39.1% as of 2013/14, down from 44.9% reported in 2010/11. During the same period, extreme poverty dropped from 24.1% to 16.3%. Although EICV 5 did not show a big change in poverty reduction, there was still a slight decrease. There were many challenges including drought that affected Eastern and Southern African regions, causing scarcity in food availability and and food prices.

As far as financial inclusion is concerned, VUP has contributed tremendously to account opening and credit usage through the 3 components. Public works beneficiaries increased from 18,304 workers in 2008 to 141,189 workers in 2019. The key challenge is that public works are seasonal and depend on the availability of projects.

There were 426,290 direct support beneficiaries from 2008 to 2019 and 448,630 financial services component beneficiaries. From these numbers, it is clear that VUP has contributed in promoting formal financial inclusion in Rwanda. The contribution is not limited to transaction account ownership only but also the promotion of saving culture through public works. Most importantly, VUP has been able to reduce poverty levels of Rwandan population.







**Alliance for Financial Inclusion**

AFI, Sasana Kijang, 2, Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia  
t +60 3 2776 9000 e info@afi-global.org [www.afi-global.org](http://www.afi-global.org)

 Alliance for Financial Inclusion  AFI.History  @NewsAFI  @afinetwork