International Journal of Science and Research (IJSR)
ISSN: 2319-7064
Index Copernicus Value (2016): 79.57 | Impact Factor (2017): 7.296

Role of Financial Inclusion in Promoting Investment and Living Conditions in Rwanda: A Case Study of the National Council of Persons with Disabilities in Kigali City

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Abstract: ***Access to finance especially to the poor is essential for promoting inclusive economic growth and eradicating poverty in the country. Rwanda's Economic Development and Poverty Reduction Strategy (EDPRS-2) recognizes that socioeconomic opportunities and development will be undermined if expanded financial services are not available, especially to the poor and other disadvantaged groups who are deprived of access to these services. Evidently, an inclusive financial system creates employment opportunities, ensures economic and financial stability through reducing vulnerability and contributes to poverty reduction. The main objective of this study was to analyze the role of financial inclusion in promoting investment and living conditions in Rwanda. Specifically, it analyzed the extent of financial inclusion of NCPD' members; determined the factors associated with the financial exclusion of NCPD' members; and assessed the relationship between financial exclusion, investment and living conditions of the NCPD' members. The study findings are useful for the NCPDs' management, scholars and practitioners. It was a cross-sectional study using both qualitative and quantitative research design methods. The questionnaire and interviews were used for data collection from 196 respondents and Focus Group Discussions of 7 household heads. For validity and reliability of research instruments, a pilot study was conducted at the National Union of the Disability Organizations of Rwanda. The content consistency of instruments was assessed by experienced researchers. Statistical Package for Social Sciences (SPSS) software and descriptive statistics were employed for data analysis. The study found that 174(89%) respondents did not have access to financial services, while 22(11%) had access to financial services. To compensate the lack of funds from financial institutions, the NCPD in Rwanda allocated some funds to PWDs' cooperatives to be invested mostly in farming (52.06%), commerce (13.26%) and tailoring (12.72%) while minor amounts were allocated in other micro-projects (21.41%) due to the lack of funds. Despite the allocation of financial assistance, PWDs do not have accessibility to formal financial services in order to improve their living conditions. Barriers to financial services included: communication, hearing, and sight barriers (97.96%); lack of training, skills and capacity (95.92%); lack of previous experience (85.20%); lack of access to various opportunities (65.61%); unemployment and lack of income (98.98%); and inaccessibility to offices (48.98%). In addition, the study found that the NCPD's financial assistance did not contribute sufficiently to job creation (43%), income generation (47%), access to education (45%), access to health facilities (46%), settlement improvement (41%), and nutrition improvement (39%) due to its insufficiency. Only 13(6.63%) respondents created from 1 to 10 jobs; 4(2.04%) created from 10 to 20 jobs; and 3(1.53%) created from 20 and more jobs. The study concluded that NCPD's financial assistance is significant in contributing to the socio-economic development of PWD's cooperatives in Rwanda. It recommended significant efforts to build inclusive financial systems in Rwanda; to provide training to the disabled people for developing their skills to be involved in any economic activities; and to look for enough grants from NGOs and other organisations that seek to improve the wellbeing of persons with disabilities.***

1. Introduction

Over two billion adults around the world who do not have access to formal or semi‐formal financial services, nearly 90% of whom live in Africa, Latin America, Asia and the Middle East (Chaia *et al.*, 2009). In Europe, checking account is taken for granted, but also to other regions of the developing world, where penetration rates are typically between 30 and 50%. In the UK, the exclusion of significant numbers of people from everyday financial services, such as banking, credit, insurance and savings, first became a focus of concern (Collard *et al.*, 2016). In terms of financial access in developed and developing countries, Belgium ranks highest among all the countries considered, followed by Spain and Germany (Rashmi, 2010). In countries such as Cambodia, Central African Republic, and Niger, only 2-4% of all adults have an account at a formal financial institution. Without access to formal financial services, poor families must rely on age-old informal mechanisms: family and friends, rotating savings schemes, the moneylender, money under mattress. However, these informal mechanisms are insufficient and unreliable, and very expensive (Demirgüç-Kunt and Klapper, 2012). Behind these low numbers, however, is some intra-regional variation, with banking penetration surpassing 40% in South Africa but remaining below 20% in most of East Africa. Banking is very expensive in Africa, as reflected by high interest spreads and margins (Beck, 2008). Therefore, African financial systems are among the smallest across the globe, and lack of access to finance is a key constraint on the growth in Sub-Saharan Africa, and thus an important limitation on employment, economic growth and shared prosperity (IFC, 2013). The high costs alone can explain why less than 20% of the population in many African countries has a bank account, where 54% of the population in Cameroon, 81% in Kenya, 40% in Madagascar, 94% in Malawi, 89% in Sierra Leone, and 93% in Uganda cannot afford the fees for checking accounts (Beck *et al.* (2009).

Investing, on the other hand, can help to both create and preserve wealth. By taking an appropriate level of risk, someone may have the opportunity to earn potentially higher long-term returns. It is important to remember that the value of investments, and the income from them, may fall or rise and investors may get back less than they invested (IMF, 2008). According to 2012 Fin-Scope report 68.4% of the Rwandan population save, 39.6% use formal mechanisms, 40.2 use informal mechanisms and 32.6% use their own mechanisms. Fewer adults borrow than save, 58.5% in total and they are much less likely to borrow from a formal institution with only 9.3% doing so. The proportion using informal institutions is much the same for saving and borrowing. In total 41% of adults use a transaction product, 19% formal ones and 28.4 % informal ones. Thirteen percent of adults use remittance services, 7% formal, 2% informal and 4% their own mechanisms. In total 7% of the population have insurance of some sort, which is provided by other formal institutions (NISR, 2012). However, Rwanda's Economic Development and Poverty Reduction Strategy (EDPRS-2) recognizes that socioeconomic opportunities and development will be undermined if expanded financial services are not available, especially to the poor and other disadvantaged groups who are deprived of access to these services. An inclusive financial system can provide a number of benefits to the economy; make available more resources for investment. It can create employment opportunities, ensure economic and financial stability through reducing vulnerability and contributes to poverty reduction (Government of Rwanda, 2012).

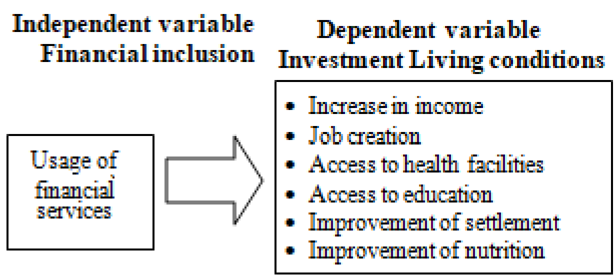
2. Statement of the Problem

Data from the National Institute of Statistics of Rwanda (NISR, 2012), indicate that there are 1.26 million adults financially excluded (8% of the adult population), and only 14% has access to formal banking products. Financially excluded people include also persons with disabilities who need to build their capacity and ensure their participation in the national development (International Monetary Fund, 2011). Despite substantial expansion of bank branches and other financial institutions, a significant share of the country's adult population still remains financially excluded (Kacem and Zouari, 2013). This gap in financial inclusion and financial exclusion motivated this study on access to financial services and socioeconomic development in Rwanda, especially at the National Council of Persons with Disabilities (NCPD).

3. Objective of the Study

To determine the factors associated with financial exclusion of NCPD' members;

4. Conceptual Framework



Research Design

This was a cross-sectional study using both quantitative and qualitative methods in order to obtain relevant and accurate information. Indeed, quantitative method involves the use of numerical and statistical measurements. It is based on testing a theory measured with numbers and analyzed using statistical techniques (Saunders *et al.*, 2009). Quantitative method was used to test the relationships between variables using numbers. Qualitative method was used to describe human experiences using in-depth interviews. These processes were tested with research questions (Creswell, 2003).

Target Population

The researcher's target population includes all persons with disabilities registered and categorized by the NCPD (8,490 persons). Data from EICV3 show that the proportion of households headed by persons with disabilities has risen from 8% to 10% (6,900 households) and the distribution of these is even across all provinces (NISR, 2012).

Sample Size

To determine the sample size of respondents who answered the questionnaire, the following sample size calculation for the Smart Methodology (2012) was used:

$$n = z^2 x \frac{(p\ x\ q)}{d^2}$$

Where:

n = sample size

z = linked to 95% confidence interval (use 1.96)

p = the expected number of persons with disabilities is estimated at 15% of Rwanda's population (WHO, 2008) = 15% = 0.15

q = 1 – p (expected non-prevalence) = 1 – 0.15 = 0.85

d = relative desired precision (5%) = 0.05

$$n = (1.96)^2 x \frac{(0.15\ x\ 0.85)}{(0.05)^2}$$

$$n = 3.8416\ x\ \frac{0.1275}{0.0025}$$

Sample size n = 196 persons with disabilities. They were selected randomly among NCPD members living in three Districts of Kigali City, namely: Gasabo, Kicukiro and Nyarugenge. They were contacted during their different meetings at the NCPD Headquarters. As for the qualitative method, seven (7) household heads comprising a focus group of persons with disabilities were selected and interviewed under the guidance of the researcher as a facilitator, to explore the phenomenon of financial inclusion and socio-economic development of NCPD members. Focus group discussions (FGDs) were used to increase the depth of the enquiry and reveal all aspects of the phenomenon.

5. Research Findings and Discussion

5.1 Factors associated with the financial exclusion of the NCPD' members

The study sought to determine the reasons that impeded the NCPD members to have access to financial services. The Ministerial Order No. 20/18 of 27/07/2009 determines the modalities of classifying PWDs into basic categories based on degree of disability. The Ministerial Order identifies five (5) main categories of PWDs in Rwanda: physically persons with disabilities; sight-impaired persons; deaf-and-dumb persons or persons with either of these disabilities; mentally persons with disabilities; persons with disabilities not specified in the above categories approved by the medical committee. They were given and explained by the study respondents. The respondents indicated that they have implemented income generating projects amongst members instead to substitute financing from microfinance institutions.

Table 1: Respondents' barriers to access financial services

Barriers to financial inclusion	Frequency (N=196)	Percentage (%)
Communication, hearing, and sight barriers	192	97.96
Lack of training, skills and capacity to manage a project	188	95.92
Lack of previous experience	167	85.20
Lack of access to various opportunities	109	55.61
Unemployment, poverty, lack of income	194	98.98
Inaccessibility to offices	96	48.98

Source: Primary data

The results in Table 1 show that 97.96% of respondents have never had savings or loans as they were facing communication, hearing, and sight barriers in accessing the financial services. In addition, 188(95.92%) respondents affirmed that they have never had savings or loans due to the lack of training, skills and capacity to manage a project; lack of education and knowledge needed to access financial services that are available to them. According to 167(85.20%) respondents, the PWDs were constrained by the lack of previous experience, inability to borrow against their future income. Further, 109(65.61%) respondents pointed out the lack of access to various opportunities due to their disability and lack of access to finance to implement income generating activities. They need grants and family support to do some income generating activities. Finally, 194(98.98%) of respondents said that unemployment and lack of income was a barrier to save any money and to borrow, while 96(48.98%) complained about the inaccessibility to financial institutions' offices, especially those located in building upstairs.

The NISR (2012) reports that there are 1.26 million adults in Rwanda who are financially excluded, that is to say 8% of the adult population. They do not access formal or informal financial products or services. Financial exclusion may be due to poverty and multiple deprivations but in other cases it may be due to access barriers and/or usage barriers or choice. Access barriers include: physical access (distance to a financial service, distance and time decay); affordability (charges); eligibility requirements; and regulation. Bwire *et al.* (2009) explain that several barriers exclude disabled persons from accessing microcredit: exclusion by staff because of biased attitude; non-disabled members in credit groups; the disabled themselves because of low self-esteem and repeated experiences of rejection during life; credit design; and mobility or communication problems resulting from the disability itself. But the most hindering barrier to disabled persons from accessing loans is the credit programme design. Due to several reasons like loan amount, time duration, interest rate, disabled people think that there is no perfect products for them. Beisland and Mersland (2012) think that MFIs could design products focusing on disabled peoples' needs. For reaching more disabled clients, MFIs should revise their products as disability friendly. They may include disabled people as their clients but focus should also be given on retaining them.

5.2 Relationship between financial inclusion, investment and living conditions of NCPD' members

The researcher questioned the study respondents to establish whether NCPD's financial assistance contributes positively in improving its members' living conditions. The questions focused on the socio-economic situation before and after getting the NCPD's financial assistance. The respondents were asked to tick and give comments on the domain in which NCPD helps develop its members' livelihoods, as follows.

Table 2: Respondents' benefits from NCPD's financial assistance

Benefits from NCPD financial assistance	Agree		Disagree	
	Frequency (N=196)	%	Frequency (N=196)	%
Job creation	84	43	112	57
Income generation	92	47	104	53
Access to education	88	45	108	55
Access to health facilities	90	46	106	54
Settlement improvement	80	41	116	59
Feeding improvement	76	39	120	61

Source: Primary data

Table 2 contains the benefits of NCPD's financial assistance, the number of respondents who answered and their percentages. It shows that, according to the testimony of respondents, the NCPD's financial assistance did not contribute to the: job creation (43%), income generation (47%), access to education (45%), access to health facilities (46%), settlement improvement (41%), and feeding improvement (39%). The majority of respondents varying between 53% and 61% disagreed with all the statements because of the insufficiency of the financial assistance allocated to NCPD members in 30 districts all over the country. The following points discussed the comments, opinions, and views of respondents related to each benefit.

6. Conclusion

The study established that NCPD's financial assistance is significant in improving the living conditions of PWD's cooperatives in Rwanda. Based on the study findings, many PWDs cooperatives are unable to access the financial services due to physical and informational barriers. PWDs like other poor have entrepreneurial skills necessary to carry out their business, but they are constrained by lack of funds. The NCPD in Rwanda should ensure that PWDs are not left out in accessing financing from financial institutions, especially IMFs and SACCOs and grants from donors.

7. Recommendation

The lack of financial access for the poor should be addressed to a large extent by rapid development in the microcredit sector and speedy expansion of the microfinance institutions.

These institutions should provide financial services to a significant number of the poor including the PWDs. The NCPD, GOR, MFIs and other stakeholders can provide training to the disabled people for developing their skills to be involved in any economic activities. With necessary knowledge and skills they can easily start something which will generate income. The NCPD, GOR, MFIs and other stakeholders can also build collaboration with the local organizations working for the disabled people to provide income generating training to PWDs.

The PWDs cooperatives which are not in a position to receive financial assistance from financial institutions and NCPD should look for grants from NGOs and other organisations that seek to improve the wellbeing of persons with disabilities.

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