Innovative Finance Inclusion

Microfinance as a Tool for Adaptation and Mitigation:

Urwego Bank and Rural Rwanda

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INNOVATIVE FINANCE INCLUSION

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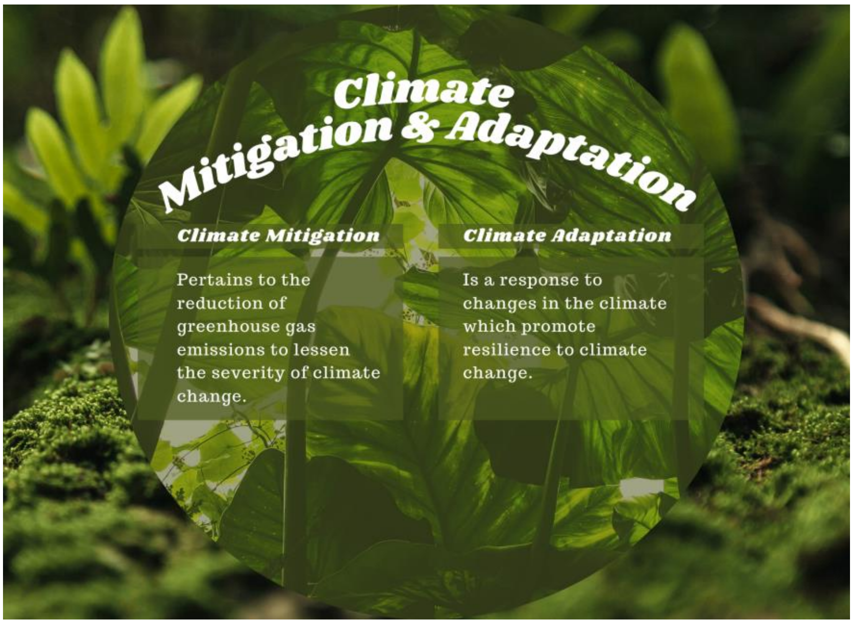
Abstract

This project assesses the intersectionality of societal and climate centric issues experienced in rural Rwanda. It discusses the ways in which microfinance acts as a tool for social change within the Rwandan agricultural sector. Additionally, it aims to illustrate the methods of climate mitigation and adaptation in Rwanda at local, national and international levels. Furthermore, it focuses on the role of microfinance as a tool to provide financial flexibility to underserved populations, who would likely be unable to access traditional financial services. Microloans within this project are extended by Urwego Bank to cooperatives, and Village Savings and Loan Associations (VSLAs). Members of the two groups are farmers who receive loans that act as direct investments to farming activities, a consequence of which is increased financial flexibility among members.[1]

[1] This was possible thanks to the framework of the *Opportunity International United Kingdom (OIUK),* and thanks to the financial support of the Scottish government. *See:* Karin Helwig, Clementine Hill-O'Connor, Michael Mikulewicz, Patrick Mugiraneza and Emanuella Christensen, *"The Role of Microfinance in Climate Change Adaptation: Evidence from Rural Rwanda," ResearchOnline* (Glasgow: Glasgow Caledonian University 2020), https://researchonline.gcu.ac.uk/en/publications/the-role-of-microfinance-in-climate-change-adaptation-evidence-fr.



Keywords

Keywords: Microfinance; Climate Change; Mitigation; Adaptation; Rwanda; Genocide

1 Microfinance and Social Change in Rural Rwanda

1.1 An Introduction to: Rwanda

Rwanda's climate has changed significantly over the past two decades, introducing extreme weather conditions like droughts, floods and landslides. Drastic changes in climate have resulted in lives lost, homes and other infrastructure destroyed and the loss of farm produce and livestock (Helwig et al. 2020, 7). An example of which transpired in May 2020, torrential rains devastated various parts of the country, had a death count of 72, and a state of emergency for nearly 1000 families (Kam 2020). Over the next century, temperatures are predicted to rise at higher rates in Africa as opposed to the global average (Helwig et al. 2020). This means, climate change will continue to threaten livelihoods, food and water security, land integrity, ecology, and human life. The impacts of climate change often worsen pre-existing conditions of widespread poverty and a lack of resilience. As a consequence, the world's most vulnerable populations who are directly affected by immediate impacts of climate change are disproportionately paying the price of the changing climate.

The disparity of climate change around the world demands unique mitigation and adaptation measures. So, what are climate mitigation and adaptation, and how can they help? Climate mitigation pertains to the reduction of greenhouse gas emissions to lessen the severity of climate change. Whereas, climate adaptation is a response to changes in the climate which promotes resilience to climate change. In this case, climate mitigation and adaptation are put in practice through the use of microfinance as a tool for social change regarding agricultural innovation (Rippey 2009). It depicts climate mitigation through carbon sequestration as a byproduct of agricultural endeavors; and climate adaptation through the attainment of independent and community resilience, with specific interest on resilience through access to a broad spectrum of microfinance services (Hammill et al. 2008, 117).

1.2 Rwanda's History: Generally Contextualized

The history of Rwanda's geographic location will be contextualized in order to establish how microfinance can be used as a tool to reduce poverty and improve development. Rwanda was a colonized territory, which resulted in colonial segregation of the population by ethnic groupings, this segregation was maintained in the post-colonial period. The Rwandan population was mainly configured by three ethnic groups: a majority of Hutu, and ethnic minorities of Tutsi and Twa.[2] Colonial favoritism of the segregated Tutsi ethnic minority was arguably a driving force in the Rwandan genocide of 1994 (Kamanzi 2021). The genocide was predominantly perpetrated by the Hutu ethnic majority who killed 1,952,078 people, mostly of the Tutsi minority (Musoni 2008).[3] The international community was aware of the proceedings in Rwanda prior to, and during the genocide of 1994, however, there was no international intervention (Editors 2009). Following the genocide of 1994, Rwanda adopted a new constitution which outlined reconciliation efforts and outlawed ethnic identification, deeming it a form of divisionism. As a result, ethnic minorities and Indigenous Peoples (including the Twa minority) are not recognized groups, such reconciliation efforts create barriers between populations and human rights (Kamanzi 2021).

> Instead, the Twa are referred to as the "Historically Marginalized People" and often live in ethnically isolated villages as pottery makers or day laborers with limited access to basic needs. They have faced generations of ethnic stigma, discrimination, extreme poverty, and now an inability to articulate or receive help for their unique needs and challenges. Kamanzi, 2021.

However, microfinance has the capacity to transcend ethnic origins and histories to achieve local, national and international goals, including community development, national strategies for transformation, and Sustainable Development Goals (SDGs). In light of the fact that nearly 35% of the national GDP is dependent on the agricultural sector, which employs about 70% of the population, meaning 9.3 million people, this case study will attempt to illuminate how microfinance is being indiscriminately accessed among farmers in rural Rwanda, and specifically, those affected by climate change (Republic of Rwanda; UNFPA 2021).[4]

1.3 National and International Objectives

The Rwandan National Strategy for Transformation (NST1) lays out objectives and key strategic interventions from 2017-2024, through which a number of SDGs are addressed.[5] This strategy acknowledges that a lack of adaptation to climate change within the agriculture sector is 'a crosscutting policy issue which impedes economic growth, hinders poverty reduction, increases food insecurity and impacts the well-being of smallholder farmers' (Helwig et al. 2020, 11). Examples of SDGs addressed through the NST1 include (but are not

[2] Rwanda's Belgian colonizers favoured the Tutsi minority which perhaps contributed to tensions between Hutu and Tutsi. *See:* https://www.history.com/topics/africa/rwandan-genocide.
[3] Some claim 800,000. *See:* https://www.history.com/topics/africa/rwandan-genocide.
[4] In 2022, the recorded population of Rwanda in millions was: 13.6. *See:* https://www.unfpa.org/data/world-population/RW.
[5] The National Microfinance Policy Implementation Strategy from 2013-2017, established policy goals to promote financial inclusion. *See*: *Helwig et al. 2020, 10.*

limited to) SDG: 1 No Poverty; 2 Zero Hunger; 3 Good Health and Well-Being; 4 Quality Education; 8 Decent Work and Economic Growth; 9 Industry, Innovation and Infrastructure; 10 Reduced Inequalities; and 12 Responsible Consumption and Production. In this case, national and international objectives aimed to address multiple societal issues, have the potential to be accomplished through local actors utilizing innovative tools, such as microfinance loans. The NST1 prioritizes economic and social transformation through creating jobs to reduce poverty and to reduce inequalities this encompass SDG 1, 2, 8 and 10; it also promotes access to quality education through the ease of financial strain on farming families creating accessibility to quality education, and therefore addresses SDG 4; increasing the quality, productivity and production of agriculture and livestock promotes SDG 2, 3, 9 and 12; alleviating farmers' access to finances addresses SDG 1, 2, 3, 4, 8 and 10; and improving disaster risk measures in various sectors which includes SDG 8 and 9 (Government of Rwanda 2017, 17, 25, 33).

2 Urwego Bank

2.1 Urwego Bank: Microloans

Urwego Bank illustrates the connection between local, national and international goals which can be accomplished through using microfinance as a tool for social change. Urwego Bank offers a number of microloans varying between individual and group loans. All loans fall under Urwego Bank's overarching goal to invest in breaking cycles of poverty through investing in underserved communities. Within this case, the goal of Urwego Bank is accomplished through equipping local farmers with group loans, which fall under two categories of agricultural loans, the Irish Potato Group Loan and the Rice Group Loan.[6] The Irish Potato Group Loan is extended to groups of 20-30 with a loan term of 6 months, it is specifically intended to purchase potato seeds and fertilizer and the group members are guarantors of all member's loan amount (Urwego Bank 2022). The Rice Group Loan is meant for 'rice farmers, organized in cooperatives' of 20-30 people, the term of the loan is a maximum of 8 months, the purpose of the loan is to purchase seeds, fertilizers and to compensate labour activities, and the cooperative acts as the 'co-borrower for all members' loans' (Urwego Bank 2022).

2.2 Scope

This case study was conducted by Karin Helwig, Clementine Hill-O'Connor, Michael Mikulewicz, Patrick Mugiraneza and Emanuella Christensen from the Glasgow Caledonian University entitled, The Role of Microfinance in Climate Change Adaptation: Evidence from Rural Rwanda (2020). Urwego Bank loans were extended to farmers for the purpose of attaining seeds and fertilizers. Within this case study, two sites within Rwanda: the Huye District in Southern Rwanda, and the Rubavu District in Northern Rwanda. The weather in both districts has been implicated by climate change, in the Huye District rainfall patterns and temperatures have been aggravated; and the Rubavu District has experienced high soil erosion and acidity (Helwig et al. 2020, 13-14). Due to extreme weather conditions established by climate change, both Cooperatives and VSLAs microfinance loans are high risk. Many participants shared their fear in taking microcredit loans due to climate-responsible crop instability (Helwig et al. 2020, 24). However, members of Urwego Bank's Cooperatives are offered essential training services and VSLAs are required to take part in training to secure a loan. Training includes, 'sessions on loan management, cooperative management, income

[6] Although Urwego bank offers an array of loans, this case will focus on group, agricultural loans. *See:* https://www.urwegobank.com/productsandservices/.

generating activities, sustainable/climate-smart agriculture, or postharvest processing' (Helwig et al. 2020, 19).

2.2.1 Huye District

The Huye District field site is a rice growing cooperative, it consists of more than 250 active members with an average paddy size ranging from 16 to 56 acres (Helwig et al. 2020, 13). Many rice paddies are owned by the Government of Rwanda and are rented to members of agricultural cooperatives to fulfill the national 'land use consolidation programme' (Helwig et al. 2020, 13). Membership to the rice cooperative 'is contingent on securing rice paddies by purchasing cooperative shares' (Helwig et al. 2020, 13). Being a formally registered enterprise with collective ownership by its members, the cooperative receives the loan from Urwego Bank and distributes it to members. Loans are distributed as vouchers for farming necessities like seeds and fertilizers, and are paid back through the cooperative. Additionally, any amount defaulted by a member is paid back to Urwego Bank by the cooperative and is later dealt with by the cooperative. Furthermore, microloans acquired from Urwego Bank are applied strictly to cooperatives rice cultivation, however, the members are free to use the crop's harvest for personal use or to sell (Helwig et al. 2020, 14).

2.2.2 Rubavu District

The Rubavu site farms Irish Potatoes, and is made up by members of various Village Savings and Loan Associations (VSLAs) which consists of 20-30 members. VSLA members 'cultivate potatoes alongside crops for personal consumption and local sale… VSLAs in Rubavu receive loans from Urwego Bank and are responsible for disbursing the fertilizer and managing repayment. They are also liable for loan repayment on behalf of all their members' (Helwig et al. 2020, 14).

2.3 Success Factors

Farmers from both study areas recognized that loans helped them adapt to climate change, predominantly because fertilizers and higher quality seeds ensure there is at least some yield even in seasons of adverse weather. Additionally, farmers appreciated the direct investment in their farming activities which increased financial flexibility. Farmers, mainly in the Rubavu district, reported that although the loan was only for fertilizers, it still ensured financial flexibility, meeting national and international SDGs, even when the harvest was poor. The buffer function of the cooperative was made evident in the example given by a member, who recalled that the cooperative repaid the loan on behalf of another member whose harvest had failed. The vast majority of participants reported multiple benefits from affiliation to cooperatives and VSLAs. A specific benefit of cooperatives is that they can facilitate market access and negotiate higher sale prices to the benefit of their members.

2.4 Uniqueness and Relevance to Sustainability and Sustainable Finance

The uniqueness and relevance to sustainability and sustainable finance can be exemplified by Urwego Bank's commitment to practice financial inclusion. Urwego Bank has offered microloans to '8,500 smallholder farmers working in government-supported agricultural cooperatives,' who likely would not have qualified for traditional financial services (Helwig et al. 2020, 4). It also acts as a mechanism on the local level, to achieve national and international SDGs and benefits cooperative and savings group members through serving 'both as a safety net and a catapult for… economic and social development by way of enhanced access to loans, training and markets' (Helwig et al. 2020, 22).

2.5 Conclusion

This report demonstrates how microfinance services can be integrated in diverse and multi-level approaches, with the scope of providing necessary means to give access to credit to disadvantaged populations affected by climate change. As in this case, cooperation among various actors can provide microfinance services aimed at alleviating the ramifications of climate change, so as to positively impact socio-economic development, and to improve methods of both resilience and adaptation to climate change. In the Rwandan paradigm this was achieved with the collaboration of local level, national and international institutions within both private and public sectors. A byproduct of the benefit is the economic sustainability of the investment cycle, which is translated from individuals, to communities, to national and international spheres. In this case, microloan services offer provisions of physical and financial resources which reduce poverty and improve development. The role of microfinance in strengthening cohesion and inclusion among local communities alleviates short term deficits and long term broader disparities at local and national levels.

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