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FINANCIAL SECTOR REVIEW OF RWANDA

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CURRENCY EQUIVALENTS

Currency Unit

Rwanda Franc (RWF)

Exchange Rates (annual average)

Year	US $1 =	
1980	RWF	93
1981	RWF	93
1982	RWF	93
1983	RWF	94
1984	RWF	100
1985	RWF	101
1986	RWF	85

Fiscal Year

January 1 - December 31

PREFACE

This examination of Rwanda's financial system was conducted during a four-week period in September-October 1986. The study was done under the auspices of the U.S. Agency for International Development's Employment and Enterprise Policy Analysis Project contract, held by the Harvard Institute for International Development, Michigan State University, and Development Alternatives, Inc. The field work was directly sponsored by USAID/Kigali's Policy Reform Initiatives in Manufacturing and Employment (PRIME) Project and the Rwandan Ministry of Finance and Economy.

The study's objective was to provide an overview of Rwanda's financial system as a first stage to later studies that may examine the relationship between capital market policies and enterprise development and productive employment generation. These studies are based in part upon results of the Household Budget and Consumption Survey, which are currently being processed and analyzed.

The specific scope of work for this assignment was to

> prepare a summary report describing the findings concerning the financial system, its structure, current patterns of operations, strengths, and weaknesses; make suggestions to the Rwandan government concerning changes in policies, banking procedures, or projects which might serve to improve the effectiveness with which the financial system operates.

In addition, USAID/Kigali requested a focus on Rwanda's two development institutions -- the Banques Populaires and the Banque Rwandaise de Developpement -- to help design a strategy to assist these institutions. An analysis of the demand for credit by Rwandan enterprises was not part of this assignment's scope but will be examined in future studies.

This report could not have been accomplished without the support and guidance of Dr. Donald Mead, Michigan State University advisor under the PRIME project to the Ministry of Finance and Economy. The insightful comments made during debriefing meetings by the Minister of Finance and Economy, M. Jean-Damascene Hategekimana, and other officials of this Ministry as well as USAID/Kigali staff provided a better understanding of the complexity of local issues. In addition, my thanks to M. Jean-Marie Vianney Mbaguta and Augustin Ngirabatware, of the Ministry of Finance and Economy for their assistance throughout the research period; the latter's keen enthusiasm helped to sustain this effort. My appreciation is also great for Nick Minot's late nights spent communing with the computer to extract results from the Household Budget and Consumption Survey relevant to this study and Marie-Claudine Mudenge's long hours helping to type tables and tracking down bits of information. The precious time and insights provided by the Central Bank staff, particularly Messrs. Edouard Semunyana, Oswald Habarugira, and Christophe Bicahaga, and senior management of Rwanda's financial institutions were among the most critical ingredients to this report.

The views presented herein represent those of the author and are not necessarily those of USAID/Kigali or the Ministry of Finance and Economy.

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TABLE OF CONTENTS

Page

PREFACE i

EXECUTIVE SUMMARY ix

CHAPTER ONE

OVERVIEW OF THE ECONOMY AND FINANCIAL INSTITUTIONS . . . 1

ECONOMIC CLIMATE. 1
FINANCIAL DEPTH AND THE MOBILIZATION OF FINANCIAL RESOURCES. . . 3
CREDIT EXPANSION AND ALLOCATION 7
OVERVIEW OF FINANCIAL INSTITUTIONS. 13

CHAPTER TWO

REGULATORY POLICIES 17

OVERVIEW. 17
LOAN CEILINGS AND CREDIT ALLOCATION POLICY 17
Global Ceilings 17
Term Lending Ceiling 19
Credit Allocation Policy 22
INTEREST RATES. 23
BANK DEBT STRUCTURE 26
MANDATORY RESERVES, GUARANTEE FUND CHARGE, AND PROVISIONS . . 27
LOAN APPROVAL AUTHORITY. 27
COLLATERAL REQUIREMENTS. 28
LOAN PURPOSE 28
FOREIGN EXCHANGE REGULATIONS. 28
REFINANCING FACILITIES OF THE CENTRAL BANK 28
AUDITING AND SUPERVISION OF FINANCIAL INSTITUTIONS 29
RECOMMENDATIONS. 29

CHAPTER THREE

THE COMMERCIAL BANKS 31

OVERVIEW. 31
PORTFOLIO COMPOSITION 31
PROFITABILITY 33

FINANCIAL CONDITION 33
RECOMMENDATION 36

CHAPTER FOUR

THE CAISSE D'EPARGNE AND THE CAISSE HYPOTHECAIRE 37

CAISSE D'EPARGNE DU RWANDA. 37
CAISSE HYPOTHECAIRE DU RWANDA 38
RECOMMENDATIONS. 38

CHAPTER FIVE

BANQUES POPULAIRES 41

OVERVIEW. 41
ADMINISTRATION 41
Organizational Structure 41
Internal Credit Procedures 42
Management Information System and Internal Inspection and Control Procedures 43
Staff Capability, Productivity, and Efficiency. 44
FINANCIAL PERFORMANCE 45
CLIENT PROFILE. 47
RECOMMENDATIONS 50

CHAPTER SIX

BANQUE RWANDAISE DE DEVELOPPEMENT 53

OVERVIEW. 53
ADMINISTRATION 54
Organizational Structure 54
Internal Credit Procedures 54
Management Information System and Internal Inspection and Controls 56
Staff Capability, Productivity, and Efficiency. 57
FINANCIAL PERFORMANCE 57
Financial Condition and Profitability. 57
Portfolio Quality and Repayment Rates 59
CLIENT PROFILE. 62
RECOMMENDATIONS. 62

CHAPTER SEVEN

INFORMAL FINANCIAL SECTOR 65

OVERVIEW. 65
PRELIMINARY FINDINGS OF THE HOUSEHOLD BUDGET SURVEY. 65
Methodology 65
Credit Transactions 66
Savings Transactions 69
TONTINES 70
Overview 70
Kivuye Commune Case Study Results 70
Kanama Case Study Results 72
THE ROLE OF MERCHANTS 73
RECOMMENDATIONS 73

BIBLIOGRAPHY 75

ANNEX: FINANCIAL STATEMENTS OF RWANDAN BANKS 77

LIST OF TABLES

Tables		Page
1	Financial Situation, 1980-March 1985	2
2	Financial Depth: Selected Indicators	4
3	Changes in Narrow Money and Quasi Money from 1980 to 1984	5
4	Investment and Savings	6
5	Summary Accounts of the Deposit Money Banks	8
6	Growth Rates of Principal Financial Aggregates, 1981-1985	9
7	Distribution of Loans by Economic Sector, December 1985	10
8	Loan Distribution by Size and Term, June 30, 1986	12
9	Bank Lending Compared to BNR Global Ceilings	20
10	Bank Term Investments Compared with BNR Ceiling on Term Loans, December 31, 1985	21
11	Structure of Interest Rates	24
12	Loan Portfolio Breakdown	31
13	Rwandan Commercial Banks: Financial Ratios	34
14	Ratios of Operating Costs to Total Assets in Selected Countries, 1975-1983	35
15	Portfolio Quality by Borrowers' Socioeconomic Group and Profession, December 31, 1984	46
16	Banques Populaires: Distribution of Deposits by Socioeconomic Group, 1981, 1983, 1985	47
17	Banques Populaires: Structure of Deposits, December 1985	48
18	Banques Populaires: Distribution of Loans by Socioeconomic Group 1981, 1983, 1985	49
19	Banques Populaires: Distribution of Loans by Size, December 31, 1983	49
20	Banques Populaires: New Loans Extended in 1984 and 1985 by Economic Activity	50

21 BRD: Portfolio Arrears September 30, 1986 59

22 BRD: Analysis of Delinquent Loans by Project Size: December 31, 1985 61

23 BRD: Approved Loans by Scale and Sector 63

24 Distribution by Size of New BRD Loan Approvals, 1983-1985 64

25 Rural Household Credit Transactions 66

26 Household Budget Survey Results: Number and Value of Loans by Source 68

27 Household Budget Survey Results: Number and Value of Loans by Term 68

28 Household Budget Survey Results: Size Distribution of Loans Received 69

29 Household Budget Survey Results: Number and Value of Withdrawals by Source, 1983 69

30 Kivuye Tontines: Distribution by Number of Members 71

31 Kivuye Tontines: Distribution by Amount of Contribution 71

32 Amount of Savings Raised through the Tontines of Kivuye 72

EXECUTIVE SUMMARY

Rwanda's 6 percent average annual increase in gross domestic product since independence in 1962 is one of the highest in Africa. Unlike surrounding countries, Rwanda has invested relatively little in unproductive public enterprises, and has generally maintained small budgetary deficits; a low debt service ratio; and, overall, a balance of payments surplus. The challenge of the government during the next 20 years will be to increase agricultural productivity and find productive employment possibilities for those who will no longer be able to find work on the farm.

The provision of credit to agriculture and industries is one of prerequisites to stimulating growth in these sectors. Financial institutions will have to play a far greater role than in the past to encourage increased agricultural production and the development of micro, small, and medium industries outside Kigali. The capital market policies of the Banque Nationale du Rwanda (BNR, or Central Bank) should be structured to promote financial deepening and to encourage, rather than mandate, loans to these priority sectors.

The global loan ceiling regulations of the Central Bank are being used to prod the commercial banks to diversify from their traditional short-term trade-financing role and assume greater responsibility in the area of term financing to productive enterprises. Further positive incentives may be needed to promote such lending and to protect depositors.

To reduce the risk of disintermediation of funds, the Central Bank should encourage banks to raise longer term deposits and examine the idea of allowing them to apply variable interest rates on term loans. Longer term deposits might be mobilized if the interest rate differential between term deposits under and over one year were widened. To maintain positive real rates on deposits, the Central Bank might consider pegging these rates to best estimates of domestic inflation. Fixing interest rates on one-month deposits that are two to three points above inflation should be sufficient to encourage depositors to maintain or increase their accounts. To encourage loans to priority sectors, the Central Bank should allow banks more flexibility to set lending rates that reflect the greater risk and higher administrative costs associated with such loans.

Nevertheless, commercial banks can be expected to resist any pressure to finance higher-risk activities undertaken by individuals who are not familiar bank clients. Thus the Central Bank should be careful that its global credit ceiling policy does not stimulate a backlash from the commercial banks to decrease deposits.

Given the fragility of Rwanda's financial institutions, as demonstrated by the poor performance of the Caisse d'Epargne and Caisse Hypothecaire, the Central Bank's capacity to supervise Rwanda's financial institutions should be greatly strengthened. In addition, the Central Bank should require more rigorous external audits of Rwanda's financial institutions.

The Banques Populaires (BOBP, using the acronym applied by the BNR) offer the best hope for deepening Rwanda's financial system and meeting the financial needs of rural Rwandans. Its extensive branch network and the provision of passbook

accounts offer the convenience and security needed to mobilize rural savings. The poor quality of its loan portfolio, however, must be improved before the Banques Populaires can fulfill their potential. The Banques Populaires need donor support for technical assistance to improve their current management information system, computerize their head office operations, establish a project development unit, and increase training for staff and local board members.

The Banque Rwandaise de Developpement (BRD) plays an important part in Rwanda's economic development. Its decision to enter the small- and medium-scale (SME) financing arena, fully cognizant of the risks and costs, was commendable. With the benefit of hindsight, it appears that the BRD moved too quickly into this difficult activity. It has wisely decided to restrain its SME lending operations and focus on improving collections. The BRD should streamline its current SME internal credit procedures and improve the capacity of its staff to analyze and supervise these loans. If the World Bank allows the BRD to use its loan to fund local currency costs, the BRD should have no need for funds from the U.S. Agency for International Development for lending purposes in the near future. However, it is suggested that USAID re-examine the BRD's needs for technical assistance and training, bearing in mind the decision of the United Nations Development Programme to provide a full-time advisor to the SME Evaluation Unit. USAID also should analyze carefully the administrative structure and potential financial viability of the BRD's proposed development fund prior to deciding whether it merits USAID funds.

All studies indicate that Rwanda has an extensive informal financial system in rural areas. A major opportunity exists for financial institutions to capture savings and intermediate funds to productive rural activities. To compete, the formal sector needs to adopt a financial mechanism that copies the more desirable features of the informal system: easy geographic access to clients, few paperwork requirements, and small loan amounts for a term of a few months. The average informal loan size is much lower and term length shorter than loans disbursed by the Banques Populaires. Entering this market could be an extremely profitable and productive endeavor. The formal system should investigate the possibility of disbursing loans through socially cohesive groups such as "tontines" to meet rural credit needs and ensure higher repayment rates.

Further study is needed on the demand for and potential effect of credit in rural areas. An in-depth examination of informal sector credit characteristics and uses should be conducted to learn how to complement this indigenous system. The relationship of informal credit and savings mechanisms to agricultural and micro enterprise needs, in particular, would be useful to design an assistance strategy. And a careful examination of the actual and potential effect of Central Bank policies on Rwanda's financial deepening, enterprise development, and employment generation should be conducted, using Household Budget Survey results, to help guide future policy.

CHAPTER ONE

OVERVIEW OF THE ECONOMY AND FINANCIAL INSTITUTIONS

ECONOMIC CLIMATE

Rwanda's 6 percent average annual increase in gross domestic product (GDP) since independence in 1962 is one of the highest in Africa. Unlike surrounding countries, Rwanda has invested relatively little in unproductive public enterprises, and has generally maintained small budgetary deficits, a low debt service ratio, and overall a balance of payments surplus. The government's sound management of the economy enabled the country to overcome some severe shocks in the early 1980s. The greatest challenge lies ahead, however, as population pressures and land scarcity force a shift in the country's economic composition.

Rwanda's economic situation deteriorated briefly in the early 1980s principally as a result of a worldwide decline in coffee prices, coupled with increased government expenditures. As shown in Table 1, the Government of Rwanda (GOR) was transformed from the enviable position of being a net creditor to financial institutions in 1980 to a net debtor in 1983. Net claims on the government rose from RWF -678 million to RWF 1,941 million between December 1982 and 1984. Domestic financing of the deficit stemmed primarily from the Central Bank, the deposit money banks, and the Social Security Fund.

In late 1982, the GOR adopted strong austerity measures to reduce the budget deficit that had grown to 2.5 percent of GDP -- still a relatively low percentage when compared with that of most countries. This involved slashing current expenditures (which dropped from 14.6 to 12.9 percent of GDP from 1983 to 1984), contracting capital outlays, and restricting imports. These measures, combined with higher coffee prices, led to surplus in the balance of payments in 1984 and 1985 and an improvement in economic growth -- GDP is expected to increase by 5 percent in 1986. Continued high coffee prices expected for 1986-1988 as a result of the failure of the Brazilian crop promise bright short-term prospects for the economy.

An extraordinarily high birth rate threatens the longer term stability of the country. Rwanda is the most densely populated country in Africa and has one of the highest population growth rates in the world (3.7-4.0 percent). To date, food production increases have kept pace with the population growth rate. This has been accomplished primarily by increasing the amount of land under cultivation rather than improving agricultural productivity. Little potential remains for expanding the amount of land under cultivation.

The challenge of the government during the next 20 years will be to increase agricultural productivity and find off-farm productive employment possibilities for those who will be pushed from the farm. If it chooses the path followed by numerous other developing countries of having the government become the employer of last resort, deficits will become unmanageable and financial resources will be

Table 1

Financial Situation, 1980-March 1985
(in millions of RWF)

	1980	1981	1982	1983	1984				1985		
	Dec.	Dec.	Dec.	Dec.	March	June	Sept.	Dec.	Jan.	Feb.	March
I. FOREIGN ASSETS (Net)	14.057,4	14.139,4	10.068,3	8.287,7	8.437,4	7.917,1	8.851,3	9.986,5	10.316,3	10.176,2	10.394,1
Assets	19.078,5	18.604,9	14.755,7	13.129,1	12.794,3	12.068,2	13.140,7	14.638,9	14.787,1	14.873,8	15.170,8
Liabilities	-5.021,1	-4.465,5	-4.687,4	-4.841,4	4.356,9	4.151,1	4.289,4	-4.652,4	-4.470,8	-4.697,6	-4.776,7
II. DOMESTIC CREDIT	3.607,8	6.451,3	9.419,0	13.295,5	11.675,1	15.141,1	16.168,1	15.159,1	13.246,0	13.180,4	12.713,3
Claims on Government	-3.966,8	-2.901,9	-678,0	2.029,0	1.080,8	1.261,9	923,9	1.941,5	743,3	623,4	301,0
Credit to Public Enterprises	395,5	463,4	627,9	1.048,5	1.106,7	1.068,0	884,7	856,8	842,4	823,0	870,0
Credit to Private Sector	7.179,1	8.889,8	9.469,1	10.218,0	9.487,6	12.811,2	14.359,4	12.360,8	11.660,3	11.734,0	11.542,3
ASSETS = LIABILITIES	17.665,2	20.590,7	19.487,3	21.583,2	20.112,5	23.058,2	25.019,4	25.145,6	23.562,3	23.356,6	23.107,4
III. CURRENT LIABILITIES	14.089,4	15.897,0	16.108,2	17.982,0	17.100,2	19.545,3	20.299,1	19.849,0	19.610,4	19.161,9	19.071,6
A. Narrow Money	10.928,5	11.728,5	11.442,2	12.294,4	11.293,1	13.541,6	13.340,1	13.332,3	12.813,9	12.562,3	12.559,6
Currency Outside Banks	5.689,4	6.085,5	6.259,7	6.662,0	6.224,9	7.900,5	6.966,9	7.029,8	6.452,8	6.358,5	6.589,5
Sight Deposits	5.239,1	5.643,0	5.182,5	5.632,4	5.068,2	5.641,1	6.373,2	6.302,5	6.361,1	6.203,8	5.970,1
B. Quasi Money	3.188,6	4.209,3	4.713,3	5.759,4	5.979,2	6.176,3	6.997,0	6.549,0	6.881,5	6.742,6	6.578,3
C. Cash and Deposits BRD CHR	-27,7	-40,8	-47,3	-71,8	-172,1	-172,6	-38,0	-32,3	-85,0	-143,0	-66,3
IV. LONG-TERM LOANS TO GOR	536,4	514,4	575,4	868,0	920,5	1.003,4	1.014,8	957,9	981,9	1.055,1	1.059,7
V. FOREIGN	19,0	85,6	-	-	-	-	-	-	-	-	-
VI. OTHER ITEMS (Net)	3.020,4	4.093,7	2.803,7	2.733,2	2.091,8	2.509,5	3.705,5	4.338,7	2.970,0	3.139,6	2.976,1

Source: BNR.

diverted from productive investments. If productive employment opportunities are not created in the rural areas, where 95 percent of the population live, urban areas will swell with underemployed hawkers and vendors and will develop volatile slum areas.

Financial institutions will have to play a far greater role than in the past to encourage increased agricultural production and the development of micro, small, and medium industries outside Kigali. As the number of livestock declines, artificial fertilizer will have to be introduced to maintain soil productivity. Credit for such inputs must accompany technical assistance to introduce improved farming practices on increasingly fragmented land holdings. Small loans to help develop micro- and small-scale enterprises to provide alternative employment possibilities outside Kigali must also become a higher priority for development-oriented financial institutions.

FINANCIAL DEPTH AND THE MOBILIZATION OF FINANCIAL RESOURCES

Although Rwanda's financial system is still relatively shallow, the country demonstrates good prospects to deepen its financial markets rapidly. Three factors underpin the strength and increased responsiveness of the financial system:

- Economic and political stability of the country, encouraging confidence in the financial system and promoting investment;
- Current high positive interest rates on term deposits, encouraging savings;
- An expanding network of rural banks, mobilizing rural savings and providing loans for productive purposes.

Table 2 compares Rwanda's level of financial depth with that of other countries. The ratio of money supply and financial assets to the gross national product is still low. In part, this reflects the important role of barter activities and the fact that animals and other tangible assets form an important source of savings in rural areas. Rwanda is slowly moving from a barter system to a monetized economy. As shown in Table 2, most developing countries have reached the stage where M1 (money and demand deposits) is as high in relation to GNP as in developed countries. Typically M1 expands until it is about 20-30 percent of GNP after which the role of quasi-money assumes greater importance.

As shown in Table 3, the percentage of M1 relative to GDP has steadily declined since 1980. This decline reflects the GOR's conservative monetary policy and the growing importance of term deposits. The 1980s have been characterized by

TABLE 2

FINANCIAL DEPTH: SELECTED INDICATORS

Country	Money (MI)	Assets of Deposit Banks	Total Financial Assets	Per Capita Income (US $)
		(percentage of GNP)		
Industrial				
Germany	16	110	159	13563
Japan	29	161	266	10217
Spain	26	90	124	5764
United Kingdom	15	93	173	8956
United States	15	87	207	12513
Middle Income				
Argentina	7	36	43	2380
Brazil	7	38	56	2210
Korea	9	96	112	1719
Mexico	10	34	43	2070
Portugal	44	132	138	2530
Lower Income				
* Bolivia	19	21	21	600
* Indonesia	11	24	24	520
Kenya	18	56	75	430
Nigeria	22	50	63	870
Thailand	9	51	66	770
* Rwanda	8	13	13	270

Note: All figures except those on Rwanda are for 1981 and are taken from "Review of Financial Sector Work," Financial Development Unit, Industry Department, The World Bank, October 30, 1983. Rwanda figures from Banque Nationale du Rwanda Bulletin No. 12, Decembre 1985. Rwanda figures are based upon Central Bank data and World Bank estimates for 1984.

Total financial assets comprises the sum of the assets of all deposit banks and of all securities outstanding at year-end. Securities outstanding comprises the nominal value of bonds and the market value of shares outstanding at year-end.

*Data on volume of securities are unavailable.

a moderate growth of the money supply (see Table 1), with M1 growing on average by 6 percent, quasi money by 21 percent, and broad money by about 10 percent per annum between 1980 and 1985. GDP grew at a compounded rate of about 11.8 percent during 1980 and 1984.[1]

Rwanda's savings and investment rates are well below those of other developing countries in Africa. However, this may also reflect the importance of the informal sector and traditional forms of non-monetized savings. In current terms, gross domestic savings dropped from 5.6 to only 1.4 percent of GDP between 1980 and 1981, as shown in Table 4. This may be explained by the decrease in real incomes as a result of lower coffee prices; this decrease was not accompanied by a decline in consumption. Gross domestic savings increased steadily after 1982 and made up about 4.7 of GDP in 1984 -- still well below the rate of 7.7 percent in 1979. Gross domestic investment has declined steadily from its peak of 17 percent of GDP in 1980 to under 12 percent in 1984, partially as a result of exchange rate appreciation.

TABLE 3

CHANGES IN NARROW MONEY AND QUASI MONEY FROM 1980 TO 1984

	M1	Quasi-Money (as percentage of GDP)	Money and Quasi Money	Real Return on Deposits (in percentages)
1980	10.1	3.0	13.1	-1.3
1981	9.6	3.4	13.0	-0.5
1982	8.6	3.6	12.2	-6.6
1983	8.7	4.0	12.7	-0.6
1984	7.9	3.9	11.8	0.6

Note: Real return on deposits reflects the post-tax interest rate floor on one-month time deposits minus the inflation rate as calculated by the Central Bank.

Source: Central Bank and World Bank staff estimates of GDP.

[1] Substantial discrepancies exist among government ministries, the International Monetary Fund, and the World Bank on GDP figures. The estimate cited in this report stems from World Bank staff estimates.

TABLE 4

RWANDA: INVESTMENT AND SAVINGS

(RWF MILLIONS, AT CURRENT PRICES)

ITEM	1979	1980	1981	1982	1983	1984
Gross fixed capital formation	11773	14448	15982	17390	19202	19613
Changes in stocks	-2700	4238	326	1413	-1500	0
Gross domestic investment	9073	18686	16308	18803	17702	19613
Imports (G & NFS)	21882	30086	28492	29537	27510	29130
Exports (G & NFS)	20238	17430	13930	13319	14335	17483
Resource deficit	-1644	-12656	-14562	-16218	-13175	-11647
Gross domestic savings	7429	6030	1746	2585	4527	7966
Net factors revenue	37	138	771	-280	-773	-590
Net current transfers	7737	3264	2401	3118	3796	3257
Gross national savings	15203	9432	4918	5423	7550	10633
GDP at market prices	96173	107925	122643	132425	141934	168359
			In percentage of GDP			
Gross fixed capital formation	12.2	13.4	13.0	13.1	13.5	11.6
Gross domestic investment	9.4	17.3	13.3	14.2	12.5	11.6
Resource deficit	-1.7	-11.7	-11.9	-12.2	-9.3	-6.9
Gross domestic savings	7.7	5.6	1.4	2.0	3.2	4.7
Gross national savings	15.8	8.7	4.0	4.1	5.3	6.3
Memo items:						
Private consumption	79.6	81.9	80.4	79.4	79.6	79.4
Public consumption	12.7	12.5	18.2	18.7	17.3	15.9

Source: World Bank Estimates.

An examination of the summary accounts of the deposit money banks (Table 5) shows that sight deposits dipped between 1981 and 1982 and then resumed a steady annual compounded growth rate of 9.7 percent between December 1982 and December 1984. Time deposits increased at a compounded annual rate of 34 percent during the same time period as a result of slightly positive real interest rates, an expansion of bank branches, and the increased vigor with which the money deposit banks attempted to increase term deposits.

The potential for increasing interest-bearing deposits under one year is high. Estimates of inflation in 1986 range from negative to close to 1 percent, whereas net interest paid on one-month term deposits (after taxes) is 6 percent per annum, an extremely high return. In addition, the Banques Populaires du Rwanda (BOBP) are tapping a large volume of rural savings through the establishment of new branch offices even though the interest paid on their passbook accounts is only 3 percent per annum. The security and convenience offered to rural clients through passbook accounts at local branches are often more important considerations than the interest return. Some evidence has been found, for example, that for security reasons farmers in certain areas have placed deposits, earning little or no interest, with local merchants.

CREDIT EXPANSION AND ALLOCATION

Domestic credit expanded rapidly at an annual rate of 45 percent between 1980 and 1985 (from RWF 2,499 to 16,262 million), reflecting greatly increased credit to the government (from a creditor to a debtor status) and the private sector (17 percent growth per annum between 1980 and 1985). As shown in Table 6, from 1981 through early 1984 government claims grew substantially more rapidly than those on the private sector, reflecting a crowding out effect as well as a decline in demand for loans to coffee and mining operations. The growth of domestic credit slowed significantly in 1984 and 1985, primarily reflecting a decline in claims on the government and the collapse of the mining industry.

Although banks have been increasing the amount of their term lending during the past few years, short-term loans (less than one year) still accounted for about two-thirds of all outstanding loans at the end of 1985 (see Table 7). The financial system is geared primarily to financing coffee, commerce, and housing -- which represented about 60 percent of loans in December 1985. Credit to finance the production and processing of non-export agricultural commodities is negligible despite the importance of this sector. Over 90 percent of outstanding loans monitored by the Banque Nationale du Rwanda (BNR, or Central Bank) (which includes loans or lines of credit over RWF 500,000) were less than RWF 10 million (see Table 8) reflecting the small nature of most operations.

TABLE 5

RWANDA: SUMMARY ACCOUNTS OF THE DEPOSIT MONEY BANKS

(RWF MILLIONS, END OF PERIOD)

ITEM	1980	1981	1982	1983	1984
Reserves	999.3	432.7	585.3	873.5	965.9
Cash	444.0	313.0	390.7	323.9	393.9
Deposits at National Bank	555.3	119.7	194.6	549.6	572.0
Foreign assets	2067.1	2424.1	2599.7	2059.6	3294.4
Claims on the Government	433.7	648.0	1219.7	1981.6	2757.3
Of which: development bonds	339.0	614.0	1172.0	1947.0	2717.0
Claims on public enterprises	194.2	269.0	400.1	851.7	701.2
Claims on private sector	5662.8	7089.7	7742.2	8084.5	10020.6
Claims on other finan. inst.	53.6	54.0	54.0	84.0	84.0
Other assets	2308.3	2443.0	3058.4	4084.5	4880.0
Assets=Liabilities	11719.0	13360.5	15659.4	18019.4	22703.4
Sight deposits	4506.6	5191.0	4777.0	5055.8	5742.5
Time deposits	1794.6	2337.5	2789.7	4107.6	5019.1
Other private sector deposits	984.2	899.6	1299.9	1198.6	1134.6
Foreign liabilities	1690.7	1265.1	2330.3	1763.9	1646.9
Government deposits	633.7	713.4	836.5	916.5	1823.7
Credit from National Bank	572.0	512.1	741.8	1112.9	1680.4
Capital accounts	712.9	787.9	1015.3	1330.2	2095.6
Other items	825.3	1653.8	1868.9	2533.9	3560.6

Source: BNR.

TABLE 6

RWANDA: GROWTH RATES OF PRINCIPAL FINANCIAL AGGREGATES, 1981-1985

	1981	1982	1983	1984			1985	
				March	June	Dec.	March	June
(net change from previous period based on end of period figures in percentage)								
Net Foreign Assets	-1.9	-27.4	-14.5	-4.9	-0.5	14.5	24.3	19.1
Domestic Credit	109.2	56.2	44.6	22.2	25.9	14.3	8.7	11.2
Claims on Government	26.7	76.6	294.8	184.1	459.1	-4.9	-74.1	-26.
Claims on Private Sector	25.7	8.6	10.8	2.6	16.9	18.2	18.2	14.
Coffee	40.1	-17.4	-14.4	-55.8	9.0	36.9	65.5	20.
Mining	23.8	-58.7	-8.9	-56.9	119.7	20.5	188.1	-72.
Other	16.6	30.2	20.3	22.2	22.7	13.5	12.8	15.
Money Supply	12.9	1.4	11.8	13.8	13.1	10.1	10.8	14.
Money	5.6	-2.4	7.4	8.5	6.9	8.4	8.6	11.
Quasi-money	32.1	11.9	22.2	23.7	29.6	13.7	10.0	26.
(change in percent of broad money stock at the beginning of the period)								
Net Foreign Assets	-2.2	-26.3	-9.9	-3.2	-5.8	7.6	13.2	8.5
Domestic Credit	19.3	18.4	22.6	12.1	15.9	9.3	5.1	7.7
Claims on Government	7.5	14.0	16.7	10.6	5.8	-0.5	-4.5	-1.6
Claims on Private Sector	11.8	4.4	5.9	1.5	10.1	9.8	9.6	9.3

Source: BNR.

Note: Domestic credit includes credit from BNR deposit banks and non-bank financial institutions.

TABLE 7

DISTRIBUTION OF LOANS BY ECONOMIC SECTOR
December 1985
(in millions of RWF)

Sector	Short	Medium	Long	Total	%	Letters of Credit	Guarantees
Agriculture and Livestock:	5,410	114	719	6,243	38	322	2
Ag. production: forestry, fishing, livestock	211	19	221	451		4	
Coffee	32			32			
Tea	0						
Skins	64			64		4	
Others	115	19	221	355			
Agro-Industry	5,199	95	498	5,792		318	2
Coffee	4,610			4,610		1	
Tea	589		90	679		24	
Others	0	95	408	503		294	2
Mining	3	3		6	0.1		
Industry:	1,994	45	637	2,676	16.4	702	82
Textile & leather Industries	13		249	261		26	
Chemical Industry	461	33	92	586		230	2
Mineral product & non-metal industries	2	12	51	65			
Metal industries	976		80	1,056			
Other industries	543		166	708		447	80
Gas & Electricity							
Buildings; Public works	511	11		521	3.2	227	996
Buildings	173	11		183		27	286
Public works	338			338		200	710
Commerce:	2,620	747	278	3,644	22.4	3,267	76
Petroleum products	232	30	52	314		671	6
Food	8			8		2	
Clothing	56	39	3	98		107	
Automobile purchase, maintenance & spare parts	360		91	451		1,146	3
Other	1,964	679	132	2,775		1,342	67

TABLE 7 -- Continued

Sector	Short	Medium	Long	Total	%	Letters of Credit	Guarantees
Services	57	147	409	613	3.8	174	61
Transport & inventory of goods							
Public transport	56	141	83	280		172	61
Hotels, restaurants Tourism	0	6	89	96			2
Other Services	0		237	237			
Other	360	1,275	940	2,575	15.8	5	3
Automobile purchase	62	371	8	441		5	
Purchase or improvment of housing	100	765	832	1,697			
Artisans	13	16		29			
Other	185	123	100	408			3
TOTAL	10,954	2,341	2982	16,278	100	4,697	1,219

Note: Short, medium, and long term loans are defined, respectively, as those up to one year, one to five years and over five years in term.

TABLE 8

LOAN DISTRIBUTION BY SIZE AND TERM
June 30, 1986

AMOUNT (in 000s of RFW)	SHORT TERM	%	MEDIUM TERM	%	LONG TERM	%	TOTAL	%
Less than 500	157	16	20	4	17	4	55	3
500 to 1000	274	28	131	25	68	18	454	27
1000 to 2000	197	20	125	24	93	24	390	23
2000 to 5000	158	16	199	38	123	32	427	26
5000 to 10000	87	9	31	6	50	13	197	12
10000 to 15000	33	3	5	1	7	2	45	3
15000 to 20000	14	1	3	1	3	1	13	1
20000 to 50000	21	2	9	2	14	4	40	2
50000 to 100000	13	1	1	0	7	2	18	1
100000 to 200000	9	1	2	0	4	1	13	1
200000 to 300000	2	0	0	0	1	0	3	0
300000 to 400000	1	0	0	0	0	0	1	0
400000 to 500000	1	0	0	0	0	0	2	0
500000 to 1000000	0	0	0	0	0	0	2	0
1000000 to 200000	1	0	0	0	0	0	0	0
2000000 to 300000	0	0	0	0	0	0	0	0
More than 3000000	1	0	0	0	0	0	1	0
TOTAL	969	100	526	100	387	100	1661	100

Note: Includes only loans or lines of credit above RWF 500,000 disbursed by Rwandan bank and non-bank financial institutions.

Source: Central Bank.

OVERVIEW OF FINANCIAL INSTITUTIONS

The Central Bank supervises and controls the operations of the formal financial sector. It determines monetary policy, maintains tight control over Rwanda's foreign reserves, grants advances to the GOR, and makes domestic and international payments for Treasury operations.

Financial institutions in the banking sector are the:

- Banque Commerciale du Rwanda (BCR), the oldest and largest commercial bank in the country;
- Banque de Kigali (BK), the second largest commercial bank;
- Banque Continentale Africaine (Rwanda) (BACAR), Rwanda's third commercial bank established in mid-1983;
- Caisse d'Epargne du Rwanda (CER), a national savings and loan institution in a state of de-facto bankruptcy; and
- Banques Populaires du Rwanda, cooperative rural banks dedicated to raising small-scale deposits and making loans in rural areas.

Non-bank financial institutions are the:

- Banque Rwandaise de Developpement (BRD), dependent entirely upon donors and the GOR for its resources, and outside the supervision of the Central Bank; and
- Caisse Hypothecaire du Rwanda (CHR), a mortgage bank in grave financial difficulties.

In addition to these financial institutions, the Central Bank established a Special Guarantee Fund (FSG) in 1978 to promote loans to small and medium agricultural and industrial activities. The fund's maximum guarantee is RWF 5 and 10 million for individuals and companies respectively. The fund is financed by a 10 percent fee charged on the profits of all financial institutions and a 3-percent fee on each guaranteed loan amount. Its total capital as of December 1985 was RWF 217 million, and guarantees issued amounted to RWF 100 million. Since the FSG can guarantee up to five times its capital, it operates well below its potential. The percentage of loan principal that may be guaranteed by the FSG was lowered from 100 to 80 percent in 1986.

During 1978-1984, the FSG guaranteed only nine loans worth RWF 6.6 million. Problems included the fund's lack of (a) clear legal status, (b) interest on the part of an unpaid selection committee, (c) a full-time manager, and (d) administrative staff. A manager was hired in early 1983 and a new selection committee appointed

in June 1985. As a result of more effective management and promotional activities, 146 loans were guaranteed in 1985. Resolving the fund's legal status and adding administrative staff would improve its performance further.

Even though it has not yet paid any claims, confidence in the FSG among participating institutions appears high. Its greatest potential lies in encouraging the Banques Populaires and BRD to lend to viable enterprises that lack sufficient collateral. Although the commercial banks have used the fund, its presence alone is unlikely to make a major impact on their traditional lending patterns.

Other institutions that are part of Rwanda's financial system are two insurance companies, the Social Security fund and two development funds. The insurance companies (SONARWA and SORAS) and the Social Security fund (Caisse Sociale du Rwanda) are important mechanisms to mobilize domestic capital and have been sources of finance for the GOR. Their operations do not cover risks incurred by agricultural investments. The Communal Development Fund (Fonds de Developpement Communal), established by the Ministry of the Interior and Communal Development in 1977, invests directly in community projects (construction of infrastructure, purchase of communal vehicles, etc.) and guarantees loans to communities. In 1985, the FDG had RFW 217 million in funds that were derived from two principal sources: a 10% fee on all county ("commune") revenues and a portion of grants, subsidies and loans given to counties. The Catholic Church has established another important development fund, the Episcopal Development Office, that disburses funds for agricultural and social projects.

Although all financial institutions except the Caisse d'Epargne can make limited equity investments in firms, Rwanda does not have an institution dedicated exclusively to this function. BACAR has identified investors in Luxembourg interested in forming a venture capital firm with Rwandan private investors. This idea has been stalled, however, as a result of the lack of a reciprocal tax agreement between Rwanda and Luxembourg. In late 1986, the U.S. Agency for International Development funded a study examining the demand for another equity participation firm and potential domestic sources of funds. However, the basic issue of whether, or under what conditions, the fund might become financially viable had not been analyzed as of late 1986. Given the high visibility of such a fund, the great potential for failure given the virtual lack of a securities market in Rwanda, and the high death rate of new enterprises, considerable further analysis appears to be needed.

Rwandan financial institutions are highly specialized in their activities. Except for the commercial banks that vie for prime clients, little competition exists between institutions. Although two commercial banks have established branches in Rwanda's largest towns and the Caisse d'Epargne collects deposits through 60 rural branches and post offices, only the Banques Populaires have an extensive network of 86 rural branches to tap small savings and provide loans. This network is still inadequate to meet the financial needs of rural inhabitants and will continue to expand.

The commercial banks focus on short-term trade financing, medium-term loans primarily for vehicle purchases, and long-term loans for housing to staff (see Table 9). The Caisse d'Epargne provided loans primarily for housing, some commercial activities, and tea processing; the Caisse Hypothecaire has financed housing

exclusively. Both Caisses currently face grave financial difficulties. The two institutions dedicated to helping to finance Rwanda's economic development are the Banque Populaires and the BRD. The BP are the only potential source of small, short-, or medium-term loans for the majority of rural inhabitants. Relatively few farmers can meet the collateral requirements of commercial banks or require the longer term, larger scale loans provided by the BRD. The BRD primarily finances larger agricultural or industrial enterprises in Kigali or secondary cities. The average small- and medium-scale loan disbursed by the BRD in 1985 was RWF 6.76 million; the average new loan disbursed by the Banques Populaires (to finance rural housing, commerce, and some agricultural activities) was less than one-hundredth that amount, or RWF 65,700.

Except for BACAR and the Banque Populaires, all Rwandan financial institutions are completely or to a significant extent owned by the government.

CHAPTER TWO

REGULATORY POLICIES

OVERVIEW

The stated objectives of the Central Bank are to control credit expansion to avoid inflation and to promote loans to productive activities. It sets credit ceilings, interest rates on deposits and loans, bank debt structure, reserve requirements, loan approval ceilings, and requires the submission of financial statements from the banks each month. Central Bank regulations pertain to the deposit banks; except for foreign exchange transactions, the BRD and the Caisse Hypothecaire are free from Central Bank regulations.

Five different types of institutions have been established to provide specific financial services to different target groups. Regulations reinforced this institutional specialization and discouraged diversification. The perceived urgency to direct financing to productive agricultural, industrial, and service enterprises has caused a re-examination of this policy.

Central Bank regulations are being used to prod the commercial banks to diversify from their traditional short-term trade financing role and assume greater responsibilities in the area of term financing to productive enterprises. Further positive incentives, such as introducing variable interest rates on term loans and freeing rates paid on deposits, may be needed to promote such lending. Nevertheless, commercial banks can be expected to resist any pressure to finance higher-risk activities undertaken by individuals who are not known bank clients. Thus, the Central Bank should be careful that its credit ceiling policy does not stimulate a backlash from the banks to decrease deposits.

LOAN CEILINGS AND CREDIT ALLOCATION POLICY

Global Ceilings

Credit ceilings are the principal instrument used by the Central Bank to influence the allocation of credit among economic subsectors. The Central Bank has two types of ceilings: a global ceiling, which limits the amount of outstanding loans for each deposit bank, and a "potentiel d'engagement," which prescribes the maximum amount of medium- and long-term loans by institution. The global ceiling is currently tied to estimates of the annual increase in GDP; since GDP is expected to increase by 5 percent in 1986, the global ceiling was raised by the same percentage.

Each year's increase in the global ceiling is divided among the banks according to a formula that weights heavily their success in mobilizing term deposits and takes account of whether they have financed Rwandan nationals and agricultural activities.[1]

Since 1979, the Central Bank has expanded the definition of priority activities that lie outside the global ceiling. In 1979 only coffee financing and credit to communes were excluded from these ceilings. By late 1986, the list of outside ceiling activities had grown sufficiently vague to include most loans except those for commercial activities, the purchase of automobiles, or personal consumption purposes. The list of activities outside the global ceiling as of late 1986 includes:

- Intensive agricultural and livestock projects;
- Agricultural and livestock products to be processed locally;
- Fish farming, bee-keeping, and wood-processing projects;
- Agricultural tools, inputs, and cattle feed;
- Collection, storage, and marketing of agricultural products;
- Export products (coffee, tea, minerals, and skins);
- International transport (10 percent of the investment must be paid by the company for the first loan and 40 percent on all subsequent loans);
- Storage of petroleum products;
- New loans to productive investments that generate employment and a minimum value added of 25 percent;
- Loans to associations created to promote education;
- Home construction loans to bank staff; and
- Owner-occupied housing loans.

All loans to outside ceiling activities must be approved by the Central Bank. These approvals, however, are usually automatic and are made within 15 days of submission.

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[1] The quantitative formula for determining each bank's ceiling is the sum of its net worth, 200 percent of each bank's term deposits, and 40 percent of sight deposits. The percentage of the total of each bank is then used to calculate its share of the increased ceiling.

The Central Bank's stated rationale for tying the global ceiling to GDP increases is to avoid excessive credit expansion and inflation. However, since more than one-half of the outstanding loans in 1985 were outside the ceiling, this original objective cannot be served through this policy tool. Table 9 shows the breakdown of bank lending compared with BNR global ceilings. Two commercial banks -- the Banque Commerciale and BACAR -- consistently exceeded their official ceiling, for which a penalty fee must be paid. Loans outside the ceiling made up over one-half of outstanding loans as of December 31, 1985, with coffee loans -- a traditional banking activity -- representing 65 percent of loans outside the ceiling.

Term Lending Ceiling

The formula used to calculate each bank's ceiling on medium- and long-term loans (called the "potentiel d' engagement") is:

100 percent of net worth +
100 percent of deposits over one year term +
65 percent of savings under one year term +
25 percent of savings bonds +
15 percent of demand deposits

MINUS

Fixed assets +
Equity investments +
Doubtful loans

Since virtually all of commercial bank deposits are under one year in term, the net effect of this formula is to encourage commercial banks to use such short-term deposits for term lending. Banks may lend above their term ceilings with Central Bank approval. The Central Bank regards short-term deposits to be stable, thereby, reducing the risk normally associated with using such resources to finance term loans.

Table 10 examines the relationship between the ceiling on term lending and each bank's actual outstanding term loans. In 1982, the GOR encouraged the financial institutions to purchase Treasury bonds and Development bonds. Although the formula for calculating the term ceiling did not change, banks were advised to take these new non-liquid assets into consideration. Table 10 shows that if Treasury bonds or development bonds were subtracted from the term ceiling, the BCR and BACAR can be seen as being in a financially vulnerable situation.

TABLE 9

BANK LENDING COMPARED TO BNR GLOBAL CEILINGS
(in millions of RFW, end of period figures)

Credit	BNR Ceiling Authorized	BNR Ceiling Actual	Coffee Outside	Other Ceiling	Total
BCR					
1984	2,004	2,066	1,606	733	4,405
1985	2,284	2,345	2,183	962	5,490
6/30/86	2,345	2,285	2,748	777	5,810
BK					
1984	1,823	1,561	1,091	791	3,443
1985	1,823	1,761	2,037	877	4,675
6/30/86	1,909	1,822	1,847	731	4,400
BACAR					
1984	500	674	272	138	1,084
1985	1,000	1,122	372	433	1,927
6/30/86	1,070	1,196	403	462	2,061
CER					
1984	1,033	900		325	1,225
1985	1,117	845	1	205	1,051
6/30/86	900	889	19	179	1,087
BP					
1984	700	556	15	55	626
1985	800	723	18	60	801
6/30/86	800	733	235	96	1,064
TOTAL					
1984	6,060	5,757	2,984	2,042	10,783
1985	7,024	6,796	4,611	2,537	13,944
6/30/86	7,024	6,925	5,252	2,245	14,422
CHANGE 1984/85					
- by amount	+964	+1,039	+1,627	+495	+3,161
- by percentage	+16	+18	+55	+24	+29
Breakdown of increase by type of credit		33	51	16	100

TABLE 10

BANK TERM INVESTMENTS COMPARED WITH BNR CEILING ON TERM LOANS
December 31, 1985
(in millions of RFW)

	BCR	BK	BACAR	CER	BP
(a) ORIGINAL CEILING	822	1067	639	185	1212
TERM LOANS, TREASURY AND DEVELOPMENT BONDS:					
Medium-term Loans	715	108	698	88	293
Long-term Loans	246	158	73	122	30
Treasury Bonds	200	79			
Development Bonds	1,050	645	300	0	190
(b) TOTAL	2,211	990	1,071	210	513
(a) - (b)	- 1,389	77	- 432	- 25	- 699

Source: Central Bank.

Credit Allocation Policy

The purpose of the global ceiling is to encourage commercial banks to finance productive activities. By having the global ceiling increase at a slower rate than deposits, the Central Bank hopes that banks will be induced to invest their resources in short- and medium-term loans to activities that lie outside the ceiling. Plans to reduce the ability of the commercial banks to place their funds in profitable non-loan activities are also being studied. Currently, many banks use their excess liquidity to invest in Treasury bonds or to place interest-earning deposits with other banks.

Commercial banks may be expected to resist efforts to induce them to lend to agricultural and industrial productive activities. It will be difficult and might be unwise for the Central Bank to try to push them into term lending to such activities too quickly. Potential problems include:

- The interest rate and liquidity risks associated with using short-term resources to finance term loans (disintermediation);
- The lack of current staff expertise to analyze and supervise term loans to agricultural and industrial activities;
- The higher risks and costs associated with longer term loans to new lending activities.

On the first issue, interest rates on deposits and loans have remained at levels set in 1979. Inflation has declined from 12 percent in 1982 to approximately 0-1 percent in 1986. However, a shock to the system could create another inflationary spiral that might force the Central Bank to raise nominal interest rates on deposits to avoid mass withdrawals. If interest rates on medium-term loans are fixed at their previous lower rates, however, the banks may face substantial losses. One way to avoid this risk would be to allow banks to provide variable rate term loans with guidelines on when and how to change rates. This would transfer the interest rate risk from the banks to the borrowers. Since term loans in Rwanda carry fixed interest rates, client reaction to this idea would have to be examined.

The liquidity risk associated with using short-term funds for long-term loans is not great, given Rwanda's well-founded reputation for stability. But it does exist. Dramatic unpredicted shocks to the system -- poor harvests or political events that cause depositors to lose confidence in the financial system -- may result in mass withdrawals of funds that if tied up in medium-term loans would not be available.

A variety of safety measures could be instituted to avoid this problem and encourage the mobilization of deposits. The Central Bank, for example, could encourage deposit banks to capture deposits over one year in term by lowering the rate paid on shorter term deposits and increasing interest rate differential between longer and shorter term deposits. Or these banks could be allowed to issue their own long-term debt instruments to tap not only domestic investors (including institutional investors such as the two insurance companies and the Caisse Social)

but also those in surrounding countries. Another possibility would be for the Central Bank to guarantee all term deposits. In time of economic crisis, however, this would only increase the strain on government finances and could perhaps contribute to a worsening of the situation.

In late 1986, the Central Bank was considering the possibility of allowing commercial banks to discount short- and medium-term loans to agricultural projects (including agricultural production, agroprocessing, storage, and livestock production) with the Central Bank. Rather than establishing a rediscount line that would refinance a percentage of the original loan amount, this facility would allow banks only to discount a percentage the next installment falling due. This mechanism would increase banks' liquidity, but it would not reduce the risk of disintermediation (since this facility would provide only short-term resources to finance term loans) or encourage banks to provide longer term loans. If liquidity does become a problem and commercial banks are unable to raise longer term deposits, the Central Bank might consider establishing a discount facility that would refinance, say, 75-80 percent of medium-term loans to priority sectors.

The second problem -- lack of qualified staff and appropriate procedures to analyze and supervise medium-term loans to priority sectors -- can be rectified only through training programs and additions to personnel. Since commercial banks will not in any case provide the technical assistance required by some clients engaged in expanding or diversifying their operations, some institution to fill this need will also be required. Technoserve may partially fill this role.

Term loans to agriculture and industry are riskier and more expensive to administer than trade financing. The banks may perceive some of the activities within this category to carry an infinite level of risk; no spread will be high enough to induce them to lend to such clients. Bank managers have said that they will use the guarantee fund only when their confidence in the activity is high but sufficient collateral is lacking. However, some term loans to industry and agriculture will be lower in risk but still entail much higher administrative costs than trade financing. To induce commercial banks to lend to these clients, they must have greater flexibility in setting interest rates that compensate for their higher transaction costs. Since loans for agricultural production and imports of inputs required for industrial production carry a maximum interest rate dictated by the Central Bank, commercial banks have little financial incentive to provide more expensive, longer term loans to these activities.

INTEREST RATES

The Central Bank regulates the deposit and lending rates applied by the deposit money banks. The rates shown in Table 11 apply primarily to the commercial banks since the Banques Populaires and Caisse d'Epargne have received dispensations allowing them to charge different rates. The rate shown for deposits is post-tax. Financial institutions are required to pay a 20-percent tax on the interest paid to individuals (thus the actual rate paid by the bank on a one-month term deposit is 7.5 rather than 6 percent); interest paid to businesses, however, is not subject to this

Table 11

Rwanda: Structure of Interest Rates 1/
(In percent per annum)

	Before Nov. 1979	Effective Nov. 12, 1979	Effective Dec. 1983
National Bank of Rwanda			
1. Direct operations with the private sector			
a. Export credits	4.0	4.0	4.0
b. Imports of equipment goods and other essential commodities	5.0	7.0	7.0
c. Other credits	7.0	9.0	9.0
d. Penalty rate on credit not repaid by maturity date	9.0	12.0	12.0
2. Operations with banks			
a. Advances against coffee paper at the processing stage	3.5	3.5	3.5
b. Advances against export paper (coffee, tea, and tin)	3.5	3.5	3.5
c. Coffee export paper above 25 percent of value	4.5	3.5	3.5
d. Advances against cassiterite export paper at the processing level	—	—	4.0
e. Advances against cassiterite export paper at the production level	—	—	7.0
f. Advances against Treasury bills	4.0	8.0	8.0
g. Rediscount of Treasury bills with one month of maturity and development bonds with 90 days of maturity	5.0	9.0	9.0
3. Operations with the Central Government			
a. Overdraft below 5 percent of the average of last three years' budgetary receipts	3.0	3.0	3.0
b. Overdraft between 5 and 10 percent of this average	4.5	4.5	4.5
c. Overdraft above 10 percent	6.0	6.0	6.0
d. Exceptional advance	3.0	3.0	3.0
Deposit money banks			
1. Deposit rates			
a. Term deposits 2/			
1 month	1.0	6.0	6.0
3 months	2.0	6.25	6.25
6 months	2.5	6.5	6.5
9 months	3.0	6.75	6.75
12 months	3.5	7.0	7.0
b. Savings bonds (certificates of deposit)			
6 months	3.0	6.75	6.75
9 months	3.5	7.0	7.0
12 months	4.25	7.0	7.25
2 years	—	8.0	8.0
3 years	—	8.5	8.5
4 years	—	9.0	9.0
5 years	—	9.5	9.5
2. Government bonds			
Treasury bonds 6-12 months	4.25-6.75	4.25-6.75	7.5-8.0
Development bonds			
2 years	7.5	7.5	8.75
3 years	8.0	8.0	9.25
4 years	8.5	8.5	9.75
5 years	9.0	9.0	10.25
3. Lending rates 3/			
a. Coffee financing			
Collection (4 months)	8.0	9.0	9.0
Processing (15 days)			
Storage (60 days)	RF 3.0/kg	RF 3.3/kg	RF 4.0/kg
Exports (90 days)			
b. Tea and pyrethrum			
Storage (30 days)	6.0	—	—
Exports (120 to 180 days)	4.0	4.0	4.0
c. Mining operations			
Production/storage	—	2.0	9.0
Exports (120 to 180 days)	4.5	5.0	5.0
d. Other credit operations			
Imports of essential commodities (one year)	9.0	9.0	9.0
Construction under CF 4 million in cost	9.0	9.0	9.0
Other construction and current account advances (one year)	9.0	14.0	14.0
e. Investment approved by National Bank of Rwanda	...	11.0 max.	11.0 max.
f. Other credit with 5 years' maturity	9.0 - 13.0	14.0 min.	14.0
g. Other credit with maturity greater than 5 years	...	14.5 min.	14.5 min.
h. Penalty rate on loans that are not repaid on schedule 4/	- additional 2 percent during first 15 days of default - and additional 4 percent for delays beyond 15 days		

Source: Central Bank.

1/ Net of commissions.
2/ The interest rates on deposits that require prior notice before withdrawal are 0.25 percentage point higher than those on regular fixed term.
3/ A minimum charge of 0.75 percent is levied on all financial operations that require repayments by installments.
4/ Introduced in 1980.

tax. Ceilings also exist on commissions for opening a loan and those on coffee and tea loans that are discounted with the Central Bank. No ceilings exist on other commissions.

Despite substantial fluctuations in inflation rates, interest rates have remained, for the most part, fixed since 1979. Post-tax minimum interest rates on term deposits of one month to one year range from 6 to 7 percent. Savings bonds of one to five years range from 7 to 9.5 percent. Given the low level of deposits over one year in term, either the interest rate differential is insufficient to compensate depositors for the illiquidity of longer term deposits or depositors are simply averse to tying up funds. The former explanation may be true for higher income depositors, whereas the latter probably explains the behavior of lower income savers, particularly those in rural areas. Since the Banques Populaires, the main outlet for capturing deposits in rural areas, only offer passbook accounts, the scope for increasing longer term deposits even in rural areas is substantial.

Interest rates on one-month deposits were negative in real terms until 1984. The real return on term deposits was particularly low in 1982 when inflation was about 12.6 percent. However, deposit interest rates are currently very high in real terms since inflation is expected to be close to zero in 1986. Indeed, the Central Bank should investigate the advisability of reducing interest rates on term deposits under one year and perhaps pegging them to best estimates of the domestic inflation rate. Fixing interest rates that are two to three points above the estimated inflation rate should be sufficient to encourage depositors to maintain or increase their accounts. As mentioned earlier, higher interest rates may be required to encourage longer term deposits. Lower rates on deposits could then be translated into lower rates on loans, which would improve the financial burden on borrowers.

Lending rates are divided into two categories: preferential rates for activities judged to be important economic or social priorities and ordinary rates. Loans for preferential activities carry maximum rates and apply to export crop financing, residential housing, agricultural production, imported inputs for industry, and investments approved by the Central Bank. The Central Bank provides particularly good incentives to promote coffee exports. Loans to purchase coffee carry a net on-lending rate of 9 percent (with a penalty fee of 9 percent if not fully repaid by December 15) but may not be refinanced by the Central Bank. Those for coffee processing, storage, and export contracts cost RWF 4 per kilogram and notes may be rediscounted at the Central Bank at a rate 3.5 percent or, in exceptional cases, refinanced at a rate of RWF 0.02 per kg per day. Banks may discount notes for tea export at a rate of 4.25 percent (maximum of 150 days) and refinance 100 percent of their value with the Central Bank at a rate of 3.5 percent. Lending rates for skins and minerals are set at 5 percent.

Loans for residential housing (costing less than RWF 4 million), agricultural production, and imported industrial inputs carry an annual interest rate of 9 percent, while loans for investments approved by the Central Bank cost 11 percent.

The Central Bank sets minimum rates on non-preferential loans to discourage borrowers. Ordinary minimum rates for large construction loans and current account advances are set at 14 percent, while the rate on five-year loans for non-priority purposes is a minimum of 13 percent. Installment credit carries an official rate of 18 percent. Actual interest rates charged by commercial banks for loans to non-priority sectors range from 13 to 18 percent.

In addition, a minimum charge of 0.75 percent is required on all installment credit and a penalty fee of 4 percent is applied on principal and interest payments more than 30 days in arrears.

The policy of setting maximum lower rates on loans for preferential activities and minimum higher rates on construction and personal consumption loans may conflict with the Central Bank's desire to increase lending to the former group. The high cost of non-priority loans may reduce the demand from borrowers somewhat, but it also increases banks' financial incentive to steer credit toward these activities.

BANK DEBT STRUCTURE

The Central Bank sets ratios requiring a minimum ratio of net worth to debt. The minimum capitalization of a new financial institution is RWF 100 million. As bank size increases, the minimum ratio decreases to reflect the bank's increased resource base. The ratios are as follows:

Bank Size	Net Worth/Debt
Net worth of at least RWF 200 million and total assets of at least RWF 4 billion	5.0 percent
Net worth of less than RWF 200 million and total assets of at least RWF 1 billion	7.5 percent
Net worth of less than RWF 200 million and total assets less than RWF 1 billion	10.0 percent

The Central Bank recalculates net worth as reported by Rwandan banks. By assuming 100 percent default on doubtful loans, the Central Bank thereby reduces the numerator of the above ratio by the corresponding short-fall in reserves for bad debts reported by the banks. In addition, the net worth of a deposit bank must be at least 10 percent of the value of third party guarantees. These ratios seem prudent and should not be lowered.

MANDATORY RESERVES, GUARANTEE FUND CHARGE, AND PROVISIONS

All deposit-taking institutions must constitute 10 percent of their profits as legal reserves. This amount drops to 5 percent of profits when the reserve fund reaches RWF 100 million. Fiscal reserves must be at least 10 percent of fixed liabilities, excluding depreciation. Finally, all Rwandan credit institutions must contribute 10 percent of pretax profits to finance the FSG.

The Central Bank requires financial institutions to constitute two types of provisions. They are provisions for:

- Doubtful loans or those under litigation: 100 percent of the value of such outstanding loans plus accrued interest must be shown on the balance sheet. These loans are those that are likely not to be fully repaid or are currently under litigation.

- Unrealized loans (partially and totally): loans that have overdue payments because of temporary difficulties, but that should eventually be recovered.

Since external audits and Central Bank supervision of the deposit banks are weak, it is unclear whether provisions are adequate to protect their portfolios. To discourage the constitution of artificially high provisions, the GOR has decided to include them as a taxable item. However, this policy may discourage banks from maintaining adequate provisions and should be re-examined.

LOAN APPROVAL AUTHORITY

The Central Bank must approve all loans over RWF 1 million to foreigners, over RWF 7 million to citizens, and those that are for activities outside the global ceiling or above the term ceiling. The number of loans in the first two categories represents a small percentage of total outstanding loans. Since the Central Bank maintains a list of all borrowers with lines of credit over RWF 500,000, its approval is designed as a check that the borrower is not already overextended. Approval of outside-ceiling activities is needed to ensure that these activities truly are for productive purposes. Approvals are generally granted within 15 days and are rarely refused.

No one client may receive a loan greater than 25 percent of the financial institution's net worth without Central Bank approval. No bank may lend more than 5 percent of its net worth to its managers or directors. Bank staff may not receive more than 10 percent of the bank's net worth. Equity investments in enterprises cannot exceed 10 percent of the bank's net worth and 20 percent of the total capital of the enterprise; only the Caisse d'Epargne is forbidden from investing in enterprises.

COLLATERAL REQUIREMENTS

The Central Bank requires that all loans submitted for its approval meet conservative collateral requirements. Commercial banks accept as collateral only land and houses from individuals who have formal title to these assets (almost exclusively in urban areas), commercial vehicles, equipment, and trade inventories. The Banques Populaires have much looser requirements. Typically, the value of collateral is expected to cover 200-300 percent of loan value.

LOAN PURPOSE

Only the BRD is permitted to provide long-term loans (over five years) for productive activities. In contrast, the BRD can provide short-term loans only to staff members. Commercial banks and the Banques Populaires may provide long-term loans only to finance housing for employees.

FOREIGN EXCHANGE REGULATIONS

All transactions that involve foreign exchange must be authorized by the Central Bank. Importers seeking to import merchandise must have an import license granted by the Central Bank. After this import license is received, foreign currency availability is ensured. Until recently, importers of luxury good items had to deposit 100 percent of the value of the shipment upon receiving an import license; this amount has now been reduced in some cases to up to 50 percent. Importers of other goods may receive short-term financing to cover a greater share of the value of the shipment.

REFINANCING FACILITIES OF THE CENTRAL BANK

The Central Bank provides three types of refinancing arrangements to the deposit money banks for short-term transactions:

- Rediscounts of promissory notes, involving the exchange of the note for an advance (reescompte);

- Refinancing of secured commercial paper presented to the Central Bank; the commercial paper is retrieved after the commercial bank reimburses the Central Bank (mise en pension); and

- Receiving of a Central Bank line of credit; this applies particularly to high volume activities (such as coffee financing), with the Central Bank controlling the take-down of funds (advances en compte garanties).

These facilities may be used by the deposit money banks for commercial transactions, crop financing, and Treasury bond subscriptions held by private individuals and enterprises. The Central Bank also will refinance medium-term loans for larger development projects deemed to be of national importance. As mentioned earlier, the Central Bank is considering the introduction of another refinancing facility to promote lending for agricultural production and processing.

AUDITING AND SUPERVISION OF FINANCIAL INSTITUTIONS

Rwandan financial institutions are not adequately audited or supervised. The board of directors of each financial institution appoints a few individuals with a background in accounting to serve as external auditors of the institution (commissaires aux comptes). However, these individuals often lack sufficient auditing experience of financial institutions to perform their duties with rigor. The only exception is the BRD, which is required by donors to employ an independent auditing firm based in Nairobi.

The Central Bank lacks sufficient trained personnel to supervise the financial institutions adequately. Currently, only one individual is responsible for inspecting the banks. This individual lacks the time to conduct on-site examinations of the banks' financial records. Thus, the Central Bank's analysis of the banks is based almost entirely upon the monthly statements prepared by the banks and those approved by the "commissaires aux comptes." Given the increasing size and complexity of Rwandan financial institutions, it is important to improve the quality of bank audits and tighten Central Bank supervision.

RECOMMENDATIONS

The Central Bank would like loans to priority sectors outside the global ceiling -- short and medium term -- to make up about two-thirds of all outstanding loans within the next few years. Commercial banks may be expected to resist lending to activities that they believe carry excessive risk and high administrative expenses. They also shy away from lending to individuals who are not established bank customers. They may provide loans to known clients, such as merchants, who seek to diversify into industrial activities. The demand for loans from these individuals to finance outside ceiling activities should increase over time, but this will be a slow process. The Central Bank should be careful that its policy does not inadvertently encourage institutions to reduce deposits.

To reduce the risk of disintermediation (the application of short-term resources to finance long-term loans), the Central Bank should encourage banks to raise longer term deposits and examine the idea of allowing them to apply variable interest rates on term loans. To encourage loans to priority sectors, it should allow banks greater flexibility to set lending rates that reflect the greater risk and higher administrative costs associated with such loans.

The policy of maintaining fixed interest rates on deposits since 1979 means that the real return on deposits was negative during years of high inflation and currently is very high. To ensure a fixed positive real return on deposits, the Central Bank should consider pegging these interest rates a few points above the best estimates of inflation. To encourage longer term deposits, it should investigate the potential effect of increasing the interest rate differential between deposits under one year and longer term deposits.

Given the fragility of Rwanda's financial institutions as demonstrated by the poor performance of the Caisse d'Epargne and Caisse Hypothecaire, the Central Bank's capacity to supervise Rwanda's financial institutions should be greatly strengthened. The banks should be required to present professionally audited accounts.

CHAPTER THREE

THE COMMERCIAL BANKS

OVERVIEW

The BCR and BK have 51 and 50 percent government ownership respectively. Since only 4 percent of BACAR's capital is owned by the GOR, the BACAR is said to have more flexibility than its older competitors. Established in mid-1983, BACAR is attempting to attract the top-end of the market -- the large depositors and borrowers -- to its doors.

The senior managers of all three institutions are expatriates appointed by their "mother" bank institutions in Western Europe. A key motive of these European banks is to have their Rwandan affiliate institutions direct trade financing business to them. Even in relatively profitable years, the post-tax distribution of earnings from these small Rwandan commercial banks is relatively insignificant when compared with the scale of the "mother" banks' operations.

These banks concentrate their business almost exclusively in low-risk, high profit activities: trade financing, short-term loans, and overdrafts. .They rarely lend to clients who do not maintain an account with their institution, and all loans must be fully collateralized with solid guarantees. The commercial banks have also used the FSG a few times when clients have not had sufficient collateral.

PORTFOLIO COMPOSITION

Over 83 percent of their loan portfolios were composed of short-term loans as of December 31, 1985 (when most short-term loans to purchase coffee had already been repaid). Medium-term lending by commercial banks has increased over the years so that they accounted for two-thirds of such loans disbursed by all financial institutions as of December 1985 (see Table 12). Nevertheless, medium-term loans still constituted only about 13 percent of commercial banks' combined portfolios. The BK has shied away from term lending; medium-term loans were only 2 percent of its portfolio at the end of 1985. Commercial banks have used term financing chiefly to fund the purchase of personal vehicles, whereas the development bank has financed equipment and investment purchases.

The only long-term loans that commercial banks are allowed to make are for staff housing construction. This part of the portfolio, representing only 4 percent of outstanding commercial bank loans at 1985 year-end, has the worst repayment record as a result of problems in the housing industry and the financial overextension of staff members.

Table 12

LOAN PORTFOLIO BREAKDOWN — December 85

BY TERM

(in millions of RWF)

Banks	Short	Medium	Long	Total
Banque Commerciale du Rwanda	4,465.5	741.8	262.2	5,469.5
Banque de Kigali	4,356.8	109.6	166.3	4,632.7
Banque Continentale	1,173.7	685.2	67.9	1926.8
Banque Rwandaise de Développement	.1	16.9	2,070.1	2,087.1
Caisse d'Epargne	451.0	295.6	296.4	1,043.0
Banques Populaires du Rwanda	395.1	333.6	71.7	801.4
Caisse Hypothécaire du Rwanda	-	3.5	5.0	8.5
Banque Nationale du Rwanda	111.0	154.6	43.1	308.7
TOTAL	10,954.2	2,340.8	2,982.1	16,277.7

PROFITABILITY

About 30 percent of the revenues earned by the three commercial banks in 1985 was derived from their trade activities -- letters of credit and money exchange. Almost 50 percent of revenues stemmed from income earned on the loan portfolio of which about 7 percent came from coffee financing activities alone. Interest income return on the loan portfolio ranges from 9 percent (BCR and BK) to 14 percent (BACAR) (see Table 13). Since 56 percent of the commercial bank deposits in December 1985 were non-interest-earning sight deposits, the average cost of deposits for the commercial banks was only about 3 percent.

Administrative costs for the BRC and BK are relatively high for a commercial bank -- representing 5 and 4 percent of average assets for these institutions respectively in 1985. As shown in Table 14, banks' operating costs in industrialized countries and non-inflationary developing countries average about 2.3 percent of assets. Operating costs are a greater percentage of total assets in inflationary economies -- about 4.8 percent of assets -- as a result of increased paperwork (shorter loan maturities) and the high start-up costs involved in establishing new branches to capture low cost (in real terms) deposits. BACAR has lower administrative costs because it discourages small deposits and does not have a branch network. Efficiency improvements, such as computerization, might be investigated if commercial bank management wished to reduce administrative costs.

As shown in Table 13, BCR and BK profitability declined dramatically in 1984 and 1985, primarily due to the failure of SOMIRWA. Pre-tax return on equity declined in 1983-1985, from 60 percent to only 12 percent for the BCR and from 50 percent to 10 percent for the BK. (The Central Bank also required the BK to adjust its accounting procedures in 1985, affecting profits.) No dividends have been distributed during the past two years. BACAR was unaffected by SOMIRWA's loss and yielded a healthy pre-tax return on equity of 22 percent. (See Annex for financial statements.) Information on the commercial banks' portfolio quality and repayment rates was not made available by bank management.

FINANCIAL CONDITION

An examination of debt/net worth ratios shows that the BCR periodically has a ratio higher than that permitted by the Central Bank for an institution of its size. The Central Bank has requested the BCR to seek fresh capital, preferably from private Rwandan interests. Liquidity ratios for the commercial banks (current assets/current liabilities) are low by commercial bank standards in developing countries, but are considered reasonable in Rwanda where deposits under one year in term to date have been highly stable.

TABLE 13

RWANDAN COMMERCIAL BANKS: FINANCIAL RATIOS

	BCR				BK				BACAR	
	1982	83	84	85	82	83	84	85	84	85
Debt/Net Worth	22	21	20	23	15	13	16	18	13	16
Ratios in Percentages										
Current Assets/ Current Liabilities	84	84	81	77	91	88	83	84	81	69
Pre-tax Profits/ Average Equity		60	35	12		50	43	10		22
Post-Tax Profits/ Average Equity		19	12	04		21	04	01		04
Pre-tax Profits/ Average Assets		03	02	01		03	03	01		01
Post-Tax Profits/ Average Assets		01	01	00		01	00	00		00
Income from loans/ Average Loan Port.		10	11	09		09	10	09		14
Personnel + Admin. Costs/Average Assets		05	06	05		05	04	04		03
Portfolio/Total Assets	51	50	55	55	54	58	45	53	39	56
Portfolio/ Income Earning Assets	53	52	57	57	57	61	47	56	41	58
Other Financial Indicators										
Average Equity		318	354	382		390	421	430		206
Average Assets		7240	7736	8733		5918	6591	7691		3112
Average Portfolio		3658	4060	4786		3311	3359	3809		1495

Table 14

RATIOS OF OPERATING COSTS TO TOTAL ASSETS IN SELECTED COUNTRIES, 1975-83
(in %)

Country	Series	1975	1976	1977	1977	1978	1979	1980	1981	1982	1983
Belgium	Commercial	3.03	3.13	3.18	-	-	-	-	-	-	-
Denmark	All Banks	3.67	3.45	3.43	-	-	-	-	-	-	-
France	Commercial	2.38	2.36	2.24	2.18	2.18	2.15	2.08	2.03	-	-
Ger.,Fed.Rep.	Commercial	2.47	2.26	2.15	2.18	2.10	2.06	2.14	2.20	-	-
Italy	All Commercial	2.50	2.50	2.32	2.43	2.30	2.22	2.45	2.41	-	-
Netherlands	Commercial	2.81	2.57	3.41	-	-	-	-	-	-	-
Norway	Commercial	3.69	3.72	3.52	-	-	-	-	-	-	-
Spain	Commercial	2.95	3.16	3.63	3.05	3.18	3.22	3.17	3.10	-	-
Sweden	Commercial	1.94	2.07	2.12	1.97	1.90	1.79	1.65	1.50	-	-
USA	FDIC Insured	2.24	2.44	2.45	2.45	2.49	2.54	2.63	2.76	-	-
Brazil	10 Largest Holdings	-	-	-	-	-	10.2	11.0	12.2	-	-
Chile	Financial System	-	-	-	-	-	-	-	-	3.5	2.8
Colombia	Domestic Commercial	-	-	-	-	3.7	4.1	4.2	-	4.6	-
Colombia	All Commercial	-	-	-	-	4.0	4.3	4.8	-	5.3	-
Ecuador	Commercial	-	-	-	-	-	-	-	-	-	-
Korea, Rep.of	Nationwide Commercial	-	-	-	-	2.1	2.0	2.0	2.1	-	-
Korea, Rep.of	Regional Commercial	-	-	-	-	3.2	3.2	3.2	3.3	-	-
Liberia	Commercial	-	-	-	-	-	-	-	6.6	-	-
Malaysia	Commercial	1.4	2.0	1.4	-	1.3	1.3	1.2	1.2	1.2	-
Mexico	Domestic Banks	-	-	-	-	-	-	4.3	5.0	4.9	4.6
Pakistan	Commercial	-	-	-	-	-	3.1	3.0	3.0	3.1	2.8
Peru	Commercial	-	4.7	4.9	-	5.1	5.6	6.1	6.2	-	-
Portugal	Commercial	-	-	-	-	2.1	2.2	2.3	2.3	2.2	2.3
Portugal	Financial System	-	-	-	-	1.9	1.9	2.0	2.0	1.9	2.0
Rwanda	Commercial	-	-	-	-	-	-	-	-	-	5.0
Sri Lanka	Commercial	-	-	-	-	-	-	3.4	3.8	3.9	3.8
Thailand	Commercial	2.7	2.6	2.4	-	2.4	2.3	2.4	-	-	-
Tunisia	Commercial	-	-	-	-	-	-	-	2.0	2.1	-
Turkey	Domestic Commercial	-	-	-	-	5.6	6.0	8.8	7.1	5.7	5.0
Turkey	All Banks	-	-	-	-	6.5	7.5	8.5	6.8	5.4	4.1
Venezuela	Commercial	-	3.0	3.0	-	3.0	3.4	4.0	-	-	-

Sources: 1. OECD Countries: 1975-77, Revell, J. (1980)
1977-81, Passacantando, F. (1983)

2. Developing Countries: Appendix Tables.

Source: James A. Hanson and Roberto de Rezende Rocha, High Interest Rates, Spreads, and the Costs of Intermediation, The World Bank, Washington, D.C. p. 25

The BCR and BACAR have been careless in surpassing their global loan ceilings; in addition, their level of term lending is out of proportion with the volume and term structure of their resources. The BK, in contrast, reflects more conservative management. This institution has never overstepped either its global or term loan ceilings. The BNR has requested the BCR and BACAR to restore the equilibrium of their financial structure -- that is, raise long-term deposits and reduce the amount of long-term assets such as development bonds and share holdings.

RECOMMENDATION

Any financial analysis of the commercial banks must be treated with care since external audits are not conducted in accordance with international standards. It is suggested that the Central Bank tighten the standards for external audits of the commercial banks.

CHAPTER FOUR

THE CAISSE D'EPARGNE AND THE CAISSE HYPOTHECAIRE

CAISSE D'EPARGNE DU RWANDA

Created in 1963, the CER, a government-owned savings institution, uses its own local branches as well as those of the postal checking system to collect deposits. It is supposed to apply these resources to loans for social purposes. As of December 1985, the CER had RWF 2 billion in deposits, representing about 13 percent of all deposits held by Rwandan financial institutions. The CER's chief competitor for rural savings are the Banques Populaires. Similar to the Banques Populaires, the CER pays interest on passbook accounts, which represent 60 percent of the CER's deposits. Although it pays 6 percent (after subtracting a 20-percent tax, resulting in an actual cost of 7.5 percent to the CER) on such accounts, whereas the Banques Populaires pay only 3 percent, the latter have been increasing their deposits at a much faster rate. The CER's passbook accounts grew by only 6 and 12 percent in 1984 and 1985 respectively, much of which is explained by the capitalization of interest. The Banques' Populaires passbook accounts, during the same periods, grew by 21 and 30 percent. Explanations for this loss in the CER's market share include the expanding network of Banques Populaires, increasing the convenience of saving; the attraction of saving with a local institution that disburses loans as well as accepts deposits (only the CER's Kigali office disburses loans); and the loss of public confidence in the institution.

The CER is in a state of undeclared bankruptcy. In December 1983, its losses of RWF 546 million caused the bank to have a negative net worth of RWF 330 million. By December 1985, accumulated losses had risen to RWF 761 million and net worth was a negative RWF 545 million, or almost 30 percent of the value of client deposits. (See Annex for financial statements.)

Its problems are intertwined and difficult to resolve; a chief factor in the bank's collapse has been the high non-repayment rate of client loans. About 40 percent of outstanding loans (including principal only) are considered to be unrecoverable. Over one-half of the outstanding portfolio is for loans to construct houses -- often for rental purposes. The recession in the housing rental market has resulted in lower rents, high vacancy rates, and poor repayment of loans. However, poor repayment is not due exclusively to inability to pay; borrowers' unwillingness to repay is also an important factor.

Another factor in the CER's demise has been the high average cost of its resources -- as a result of its inability to compete with the commercial banks for interest-free sight deposits and the high cost of its passbook accounts -- coupled with the low yield on its uses of funds. Because of the poor performance of its portfolio as a result of non-repayment and lack of success in attracting more reliable clients to borrow for sound investments, the CER instead has increased its deposits with other banks. Although these deposits yield a substantial risk-free return -- 8.5-9 percent -- given the high cost of CER resources (about 5.5 percent), this does

not provide a sufficient spread to cover its administrative and other costs. In December 31, 1985, CER deposits with other financial institutions amounted to RWF 579 million, representing one quarter of its income-earning assets.

Inefficient administrative procedures, rumors of fraud, poorly trained staff, and the sizable increase in number of staff during 1984-1985 have been additional problems. The GOR is studying whether and how to revive the savings bank. It is questionable whether the loss of this institution would leave a gap that could not be filled by the other, more capable Rwandan financial institutions.

CAISSE HYPOTHECAIRE DU RWANDA

The CHR was founded in 1975 to provide medium- and long-term loans for housing construction. Its ownership comprises the GOR (62 percent), two commercial banks, the BRD, and one private corporation. It acts as a developer and recently has served as its own construction contractor. It is not permitted to accept deposits and instead must rely primarily upon its own capital and the issuance of long-term bonds to raise funds. The CHR may also borrow from the Central Bank at a cost of 8 percent, but since social housing loans carry an on-lending rate of 9 percent, this spread is insufficient to cover its costs. "Social housing" is defined as houses that cost RWF 1.6-2.5 million and are about 60-80 square meters in size; these houses are built by the CHR's primary target group -- urban, mid-level civil servants.

The performance of this institution has been poor. It has never been profitable, and as of May 1986 had RWF 90 million in accumulated losses, representing 38 percent of its share capital. As of mid-1986, it was losing RWF 2 million each month. Staff costs alone are greater than gross revenues. Since the CHR's accounting procedures do not distinguish between current outstanding loans and overdue loans and do not age delinquent loans, it is difficult to analyze the performance of its loan portfolio. A study conducted by Cooper's and Lybrand in May 1986 revealed that about 45 percent of CHR's 67 mortgage loans had more than two late installments. This study also commented that insufficient efforts were being made to recover delinquent loans. The GOR is examining what should be done about the CHR's problems. (See Annex for financial statements.)

RECOMMENDATIONS

The poor performance of the CER and the CHR raises the difficult issue of whether these institutions should be closed or whether they merit the infusion of scarce capital needed for their revival. Either choice will be costly for the GOR. If the GOR decides to close the CER, the GOR will have to absorb this institution's accumulated losses. However, the organizational restructuring and capital infusion required to transform the CER and CHR into viable institutions will also be expensive.

A permutation on these two alternatives is to narrow the focus of these institutions' activities and streamline their operations while strengthening the ability of other institutions to conduct many of the functions performed by the two Caisses. The Banques Populaires, for example, could absorb the rural deposit operations of the CER. Another financial institution might be interested in the housing loan activities of the CHR.

The Central Bank also has begun to investigate the possibility of establishing a new, multipurpose financial institution that adopts some of the activities performed by the Caisses but also plays a heavy role in financing activities judged to be important for Rwanda's economic development. To achieve the latter objective, the GOR will have to be a major source of this institution's capital; foreign private investors will be interested in the more lucrative, low risk activities already monopolized by the three existing commercial banks. Before making the sizable investment required to establish a new financial institution or to turn around the Caisses' financial performance, the Central Bank is wisely examining all alternative options.

CHAPTER FIVE

BANQUES POPULAIRES

OVERVIEW

The Banques Populaires are Rwanda's fastest growing and most important financial institutions in rural areas. They began operations in 1976 with Swiss government aid financing to help cover costs and provide foreign technical assistance. Currently, the Swiss cover the administrative costs of establishing new branches on a declining basis (100 percent of costs the first year, reduced by 20 percent each subsequent year) over five years and the cost of three technical advisors. In addition, the government of Rwanda has subsidized the Banques Populaires' agricultural loans since 1983. This subsidy has declined each year and by 1986 was equivalent to six percent of the amount of new agricultural loans disbursed. The growth of the Banques Populaires' branch network has been impressive -- about eight new branches have been established each year. As of late 1986, 86 branches had been established; within the next few years there will be a Banques Populaires branch in each of Rwanda's 143 communes.

The Swiss plan to reduce their financial commitment to this institution during the next few years. Income from operations has steadily increased and by 1985 amounted to 96 percent of costs. But, in the short-run, costs are expected to rise faster than income to improve operations further, train staff to improve loan appraisal and collections, and raise salaries to retain qualified staff. The Banques Populaires have a need for technical assistance that merits donor consideration.

ADMINISTRATION

Organizational Structure

The Banques Populaires are a union of local branches and a central office. Each local branch is built from the bottom-up. First, central office staff spend several months in the region of a new branch educating community members about the purpose of the institution and signing up members. Shares cost RWF 200-400, which entitles members in the local area to make deposits and receive loans; those who do not live in the area may become members and make deposits, but cannot receive a loan or buy more than one share. Those living in the local area can buy up to 10 shares that earn 5 percent per annum interest, which is added to each individual's passbook savings account. Each member has the right to one vote at the local Annual General Assembly, which elects the Board of Directors and Oversight Board (conseil de surveillance). Each local branch's Board of Directors, in turn, elects representatives to the National Council, which sets general policy at the annual meeting.

The Board of Directors has a representative from each geographic sector within the commune or about 10-15 members. This unpaid Board seat carries a great deal of power and prestige, and competition at election time is generally fierce. Since members of the Board of Directors approve loans, they are supposed to represent different economic sectors that receive Banques Populaires loans. After being elected, the Board members receive some training in loan analysis, approval, and supervision procedures. Regional supervisors from the central office inspect the local branches and participate in loan approval meetings. Each branch generally has only one Banques Populaires staff member, whose prime responsibility is to record transactions, submit monthly statements to the central office, and inform the Board of Directors about overdue loan payments.

Internal Credit Procedures

The central office sets a maximum loan approval amount for each branch, based upon its portfolio quality and growth in deposits. After establishment, branches must collect deposits for six months before they can begin to offer loans. Almost all branches can approve loans up to RWF 300,000; a few successful branches have a limit of RWF 500,000. Loans above these limits must be approved by the central office. No official minimum loan size exists, but in practice few loans under RWF 5,000 are disbursed. The total ceiling for each branch's outstanding portfolio is also set by the central office each quarter -- usually the maximum is 30 percent of average deposits during the preceding quarter. Coffee loans and those to enable farmers to withstand the hungry season before harvest ("soudure" loans) lie outside this ceiling.

Branch members who wish to apply for loans complete a simple one-page form and submit it to the branch manager. The branch manager verifies that the borrower has a savings account that has had regular transactions during the past few months and passes the request to the Board of Directors' member who knows the client's economic sector or character best. Typically, a statement is written pledging the moral character of the loan applicant. Board members have little technical capability to analyze loans, and few loans approved at the local level receive even rudimentary feasibility analyses. Instead, level of collateral plays an important role. Two members of the Board must assess the worth of the guarantees offered by the prospective borrower. This is usually time consuming and involves, for example, measuring the fields and assessing the value of the crop due at next harvest. Each loan application must include a document that states the value of the borrower's guarantees and is signed by the two Board members and the local burgomeister. Loan amount is at most one-third the value of the guarantees offered. Although this level of coverage may be equivalent to that required by the commercial banks, the quality of the guarantees is much lower. The only loans that may be approved without a guarantee are those for emergency purposes, which are RWF 20,000 maximum.

After the borrower's collateral has been verified, the loan request is presented at the monthly Board meeting, which is also attended by the branch manager and regional supervisor. About two-thirds of Board members must approve each loan, determine a repayment schedule, and sign the loan document. Except short-term (two to three months) coffee and soudure loans (nine months), most are about two years in term. Most loans have a quarterly repayment schedule.

The average time between loan request and disbursement for locally approved loans is about two months. Loans above the local branch limit that are analyzed by the head office required on average only 33 days between dossier receipt and approval during the first quarter of 1986. This compares favorably with most development financial institutions.

Because of the democratic nature of the Banques Populaires, since demand for credit is far greater (according to interviewed staff) than their ceilings allow, they give smaller loans to more people rather than larger loans to a few individuals. Also, contrary to common banking practice, which gives preference to established customers with a good record, the Banques Populaires provide first loans to new borrowers before extending second loans to known clients.

The Oversight Board monitors the activities of the Board of Directors and is responsible for pursuing delinquent clients. Only recently have the Banques Populaires started to take delinquent clients to court. Usually the local Banques Populaires will wait one year after a client has stopped repaying the loan before beginning legal proceedings to repossess the loan guarantees. According to Rwandan law, land cannot be sold since it belongs to the state, but the Banques Populaires can take what grows on the land and sell it. Conversations with Banques Populaires' staff indicate that the act of beginning legal proceedings has caused some delinquent clients to repay their loans, but loan non-repayment is still a serious problem.

Management Information System and Internal Inspection and Control Procedures

The existing management information system is inadequate to monitor branch operations. Current methods do not allow a repayment rate figure to be calculated, but only portfolio quality -- the percentage of the outstanding portfolio comprising overdue payments -- which is a less sensitive indicator to monitor ongoing operations. Local staff do not prepare a list of how much principal and interest are due each month that can be compared with what was actually received. Rather, interest is calculated when the client comes to repay the loan, based upon the amount of outstanding principal and number of days that have elapsed since the last payment. This simple method has been adopted since the educational level of branch staff is low and training has not been adequate to introduce more sophisticated methods.

Each month all branches send the central office a list of all borrowers that specifies the outstanding principal and amount of principal overdue as of the end of the month. Branches also prepare simple balance sheet and income statements each quarter, using a method different from that of the central office. Whereas the central office includes accrued interest on loans on its income statement (for loans in its portfolio: larger loans and those to Kigali residents), only interest that has actually been collected appears on the income statements of local branches. Similarly, while the head office includes capitalized interest as part of its portfolio on the balance sheet, the local offices include only outstanding principal. Thus, the Banques Populaires consolidated financial statements are the sum of two different systems, making analysis more difficult.

The compilation and analysis of all data are done by hand. During the early years when few branches existed, this method may have been appropriate. However, the rapid expansion of outstanding loans and deposits is causing this quantity of data to outstrip the head office's manual analysis capacity. Evidence from similar small rural loan programs indicates that the ability to analyze data and take quick remedial action is often critical to avoid disaster. Rural branches are extremely vulnerable to agricultural misfortunes that require immediate protective measures to be taken. Computerization of other similar loan programs has been found to improve staff productivity and loan recovery performance.

The internal inspection of local branches appears to be adequate. High arrearages caused some branch managers and Board members to be replaced. The regional supervisors have the prime responsibility to inspect branch operations on an ongoing basis. Head office internal auditors visit each branch about two times every year; the adequacy of such inspections was not reviewed. The elected national Oversight Board is responsible for approving the Banques Populaires' financial statements. The auditing experience of such members was also not examined. However, it is likely that, similar to Rwanda's other deposit institutions, room for improvement exists in this matter.

Staff Capability, Productivity, and Efficiency

Branch managers and local Board members have a relatively low level of technical financial skills in relation to their loan approval authority. Managers of older branches generally have completed the equivalent of junior high school; the Banques Populaires is trying to recruit high school graduates for newer branches. Branch staff members receive two months of training and a credit manual before starting work; they subsequently receive only one week of additional training each year. Board members also are trained by the head office, but most need stronger skills in loan feasibility analysis. One expatriate advisor is currently in charge the training division and requires assistance in preparing new training materials, introducing new training techniques and conducting the actual training of staff and local Board members.

To motivate good local staff performance, the Banques Populaires complements salaries by a bonus that is a function of the branch's repayment rate and increase in deposits. This bonus is placed in an account that is blocked until the branch has been audited -- any discrepancies are then deducted from the staff member's account. However, senior Banques Populaires management believes that salaries for many staff members, particularly those in the head office, are still comparatively low. Salaries will have to be raised to retain these qualified personnel.

Staff productivity varies by branch and time of month. By December 1985, the average branch had 1,354 depositors with average total deposits of RWF 20 million; each branch, on average, supervised the disbursement of 140 new loans during the calendar year and had an average outstanding portfolio of RWF 5.7 million.

Total administrative expenses and personnel costs when compared with total assets were at the same level as the BCR -- about 5 percent. Although the small-scale nature of Banques Populaires' loans and deposits is more labor-intensive than commercial bank activities, unlike the commercial banks the Banques Populaires has the benefit of unpaid Board members who perform the function of normal bank staff. This helps to explain why the average administrative cost per loan is relatively low; administrative and personnel expenses represented only 11 percent of new loans disbursed in 1985. This amount compares favorably with most rural credit programs in developing countries.

FINANCIAL PERFORMANCE

The Banques Populaires have been expanding very rapidly. During 1982-1985, total assets, equity and revenues doubled in current terms. Throughout this period, the Banques Populaires has maintained a policy of limiting the loan portfolio to about one-third of deposits. Since all of Banques Populaires' deposits are in the form of passbook accounts while many of its loans are greater than one year in term and experiencing repayment difficulties, this policy serves to protect depositors. This explains why a relatively large share of bank assets are on deposit with other financial institutions (27 percent of income-earning assets as of December 1985) or in government bonds (13 percent). Almost one-third of total revenues were derived from the Banques Populaires's deposits with other financial institutions. As the Banques Populaires improves its collection performance and develops new effective mechanisms to disburse loans to its primary target groups, agriculture and small enterprises, the percentage of assets making up the loan portfolio should grow. To complement this development, the Banques Populaires also should attempt to raise longer term deposits.

Deposits, costing 3 percent per annum, constituted 84 percent of the Banques Populaires's total balance sheet; the average return on the portfolio was about 12 percent. The consolidated income statement of the 79 Banques Populaires branches (excluding the central office) shows that they have consistently been profitable; in 1985, they earned RWF 10 million in profits, or a 14 percent return on equity. However, the costs incurred by the central office to supervise the branches have caused the institution as a whole to be unprofitable to date.

Nevertheless, net losses incurred by the Banques Populaires have steadily -- except for a sharp rise in 1984 -- declined during 1980-1985. While revenues covered only about one-half of total costs in 1980, as of 1985 they absorbed 96 percent of costs. However, in the near future, costs may rise faster than income if salaries are increased and provisions for bad debts raised to reflect the poor quality of the loan portfolio. The adequacy of provisions was not examined since information on the aging of arrears and other pertinent information was not made available.

As shown in Table 15, 34 percent of the outstanding loan portfolio in 1984 comprised overdue payments.[1] This indicates that loan repayment rates must be far worse. The socioeconomic group with the best performance (by loan amount) was teachers, but even 47 percent of the number of teachers receiving loans were delinquent. By amount, merchants, cooperatives, and artisans were the worst risks. On a more hopeful note, the credit soudure loans to farmers, which were disbursed on a pilot basis in three communes in 1985, are said to have a 98 percent repayment.

Banques Populaires management is focusing its efforts to improve collection performance. Two actions need to be taken. First, past delinquent clients must be hounded or brought to court to enforce repayment. This has begun and is said to be having positive results. Second, bank staff and local Board of Directors need to receive more training in loan analysis techniques. Loan approval limits of local branches are fairly high, given the low level of loan analysis and project feasibility capacity among Board of Directors members. Loans are approved primarily on the basis of the applicant's character and collateral. Although these criteria may ensure high loan repayment for small-scale loans, experience has shown that this is not sufficient for larger loans over a few hundred dollars. It is in this area that the Banques Populaires requires assistance.

TABLE 15

PORTFOLIO QUALITY BY BORROWERS' SOCIOECONOMIC GROUP AND PROFESSION
December 31, 1984

	Outstanding Loans		Overdue Loans			
	Number	Amount (in millions of RWF)	Number	%	Amount (in millions of RWF)	%
Farmers	3,088	88.6	1,384	45	20.5	23
Teachers	696	39.6	330	47	5.8	15
Artisans	259	14.6	165	64	5.9	40
Civil Servants	1,845	166.6	1,044	57	31.0	19
Merchants	720	225.7	377	54	112.9	50
Cooperatives & Societies	55	61.5	33	60	25.5	41
TOTAL	6,663	596.5	3,333	50	201.5	34

[1] Information on 1985 repayment rates was not made available, but discussions indicate that there has been little change.

CLIENT PROFILE

As shown in Table 16, deposits grew by an annual compounded rate of 28 percent during 1981-1985. About one-half of deposits came from farmers; the second largest group is civil servants with 15 percent of the share. Group shares have remained fairly constant among groups except that the share from cooperatives grew while that from civil servants declined. This may also reflect indirectly the Banques Populaires's policy to scrutinize loan requests from civil servants, notoriously poor risks, more carefully. If civil servants believe their chances of receiving loans from the Banques Populaires have diminished, they may be transferring their deposits to other institutions.

More than one-half of savers have deposits under RWF 1,000 (about $12); 80 percent are less-than 10,000 (see Table 17). The majority of members are small savers primarily attracted by the security of saving with the Banques Populaires; the interest received is said to be a less important consideration. Only three percent of members account for over one-half the amount of deposits. Also, depositors in Kigali prefecture (not including the head office) accounted for 36 percent of deposits by volume and about one-third by number.

TABLE 16

BANQUES POPULAIRES
DISTRIBUTION OF DEPOSITS BY SOCIOECONOMIC GROUP
1981, 1983, 1985
(amount in millions of RWF)

	1981		1983		1985	
	Amount	%	Amount	%	Amount	%
Farmers	302.7	50	486.7	47	832.6	52
Teachers	43.6	7	105.2	10	102.1	6
Artisans	31.7	5	37.1	4	79.2	5
Civil Servants	138.2	23	210.6	21	239.9	15
Merchants	63.6	10	98.8	10	170.9	11
Cooperatives & Societies	29.3	5	90.5	9	192.4	12
TOTAL	609.1	100	1,028.9	100	1,617.1	100

TABLE 17

BANQUES POPULAIRES
STRUCTURE OF DEPOSITS
DECEMBER 1985

Tranche (in RWF)	Number of individuals #	%	Total Amount (in RWF)
Under 500	46,581	43	13,175,741
500 - 1000	10,528	10	11,542,034
1000 - 5000	19,152	18	52,458,246
5000 - 10000	8,414	8	62,741,393
10000 - 50000	15,444	14	354,248,004
50000 - 100000	3,774	4	248,263,609
over 100000	3,486	3	874,645,366
TOTAL	107,379	100	1,617,074,393

The Banques Populaires has been criticized because although farmers provide over one-half of the institution's deposits, until 1985 they only received about 10 percent of loans, as shown in Table 18. Merchants have always received the largest share of loans. In response, the Banques Populaires has begun to experiment with innovative ideas to change the composition of the loan portfolio. The credit soudure loan to farmers has yielded impressive results to date. The maximum loan per individual under this program is RWF 40,000; loans are disbursed in September during the growing season and collected after the harvest in late July. The program has expanded from three to five communes in Kibuye in 1986 and will grow slowly as staff are trained. The Banques Populaires is also collaborating with the artisan project of the International Labour Organization and has established a guarantee fund with CIDA assistance. It also plans to start disbursing loans to groups of farmers. The Banques Populaires, however, lacks a project development unit to investigate other new ideas and to train staff to implement them effectively.

As shown in Table 19, in 1983 (the latest year for which breakdown of loans by size is available) about one-fifth of the number of loans were under RWF 10,000, representing only 1 percent of the total amount lent. Two-thirds of the number of loans were under 50,000. While loans greater than RWF 500,000 represented only 3 percent of the number of loans, they consumed 44 percent of the loan portfolio. Average loan size dropped dramatically from RWF 126 to 66 thousand between 1984 and 1985. The largest percentage of loans -- almost 40 percent -- were used for construction (see Table 20). Apparently, housing is regarded as an important indicator of social status and is a important investment for most rural families. Relatively few loans went to agricultural and livestock activities, and artisanal activities received the lowest share.

TABLE 18

BANQUES POPULAIRES
DISTRIBUTION OF LOANS BY SOCIOECONOMIC GROUP
1981, 1983, 1985
(amount in millions of RWF)

	1981		1983		1985	
	Amount	%	Amount	%	Amount	%
Farmers	32.8	12	49.3	11	136.8	19
Teachers	14.6	5	28.0	6	51.6	7
Artisans	13.8	5	10.1	2	9.3	1
Civil Servants	56.8	21	77.6	18	134.1	18
Merchants	130.5	47	250.6	58	310.7	42
Cooperatives & Societies	27.2	10	19.9	5	95.4	13
TOTAL	275.7	100	609.1	100	737.9	100

TABLE 19

BANQUES POPULAIRES
DISTRIBUTION OF LOANS BY SIZE
DECEMBER 31, 1983

Loan Size (in RWF)	Number of Loans		Amount of Loans	
	#	%	Amount (in RWF)	%
Under 10,000	961	19	5,022,975	1
10-50,000	2,437	48	54,670,025	12
50-100,000	764	15	51,018,162	11
100-150,000	324	6	37,311,972	8
150-200,000	138	3	26,083,553	6
200-500,000	275	6	76,019,819	17
over 500,000	148	3	195,462,930	44
TOTAL	5,047	100	445,589,436	100

TABLE 20

BANQUES POPULAIRES
NEW LOANS EXTENDED IN 1984 & 1985 BY ECONOMIC ACTIVITY

	1984			1985		
	#	Amount	%	#	Amount	%
Agriculture/Livestock	670	30.3	5	913	55.0	8
Coffee	174	164.2	29	189	166.6	23
Survival Loans ("soudure")	-	-	-	5,783	34.0	5
Construction	2,581	202.4	35	3,057	278.8	38
Artisan Activities	60	7.4	1	75	16.5	2
Commerce	369	140.4	25	372	104.0	14
Transport	11	7.7	1	29	54.8	8
Other	661	19.1	3	818	28.0	4
TOTAL	4,525	571.6	100	11,236	737.9	100

Note: Amount in millions of RWF.

RECOMMENDATIONS

The Banques Populaires offers the best hope for deepening Rwanda's financial system and meeting the financial needs of rural Rwandans. Its extensive branch network and the provision of passbook accounts provide the convenience and security needed to mobilize rural savings. Increased efforts should be made to bring the bank to the savers; this includes not only establishing more branches but also encouraging branch managers to travel to local markets on a weekly basis to collect deposits. This system has had extremely favorable results in other countries. In addition, the Banques Populaires should attempt to attract term deposits as part of its long-term strategy.

The Banques Populaires also offers the best mechanism to provide small loans to finance agricultural improvements and microenterprise activities in rural areas. To date, this type of loan has made up only a small portion of the portfolio. However, the Banques Populaires is willing to experiment with new activities, particularly when they are part of a larger regional development project. Given the high risk nature of agricultural production and microenterprise lending operations, the Banques Populaires should expand slowly into these operations through limited pilot projects.

Although operations are improving, the Banques Populaires needs donor support for technical assistance in the following areas:

- **Improvement in the current management information system.** Technical assistance should be provided to analyze the current information system and determine what changes might be introduced (such as monitoring loan repayment rates);

- **Computerization of central office operations.** An expert in the computerization of rural banks in developing countries should assess the cost-effectiveness of computerizing the Banques Populaires central office; a programmer should then be contracted to design the recommended system;

- **Establishment of a project development unit.** Local and foreign rural credit experts with training in economics, finance, and/or banking should be recruited to investigate the feasibility of introducing new types of viable loan and deposit mobilization activities;

- **Increased training for Banques Populaires staff and local Board members.** A long-term training expert complemented by short-term technical experts should be provided to help the current training expert to train regional officers, branch managers, and local Board members in simple techniques of project feasibility analysis. Training will also be required to introduce any changes in the management information system, to promote competence in computer operations among head office staff, and to introduce new types of loans. Staff need for and appropriate sources of short-term courses relevant to Banques Populaires operations should also be investigated; and

- **Field trips for management staff** to visit similar rural credit programs in other developing countries.

Donors interested in assisting the Banques Populaires should investigate these issues more thoroughly to determine the level and type of resources that are needed.

CHAPTER SIX
BANQUE RWANDAISE DE DEVELOPPEMENT

OVERVIEW

The BRD is the only institutional source of long-term financing for agricultural or industrial projects. In comparison with most development banks in neighboring countries, the BRD functions well. From its formation in 1968 through December 1985, it disbursed RWF 4.4 billion in loans to 277 enterprises and took equity positions in 14 companies for a total of about RWF 165 million. Since 1982, when it established a Small and Medium Enterprise (SME) Evaluation Unit, the percentage of the total number of loans disbursed to SMEs has increased dramatically; 87 percent of the 167 projects funded since 1982, representing 29 percent of the RWF 1.9 billion in total loans disbursed during that period, went to SMEs. Most of its loans -- for example, 84 percent of the value of loans disbursed in 1985 -- went to enterprises located in the Kigali prefecture. This concentration reflects both the location of the target group of the BRD as well as its lack of branch offices. Although BRD is still profitable, if only slightly, the high percentage of its portfolio affected by arrears - 21 percent -- indicates the institution has some serious problems.

Since it is not allowed to accept deposits (except from enterprises receiving equity infusions from the BRD), it relies upon GOR and donor funding for its resources and is not subject to Central Bank regulations. Its capital base of RWF 1,120 million is by far the largest of any financial institution in Rwanda (six times that of the BCR) and stems from the GOR (55 percent), foreign institutions (32 percent) and the domestic private sector (13 percent). Foreign shareholders include the CCCE, the DEG, the Dutch Development Finance Corporation, the Belgian government, and the Bank of Tokyo.

As of December 1985, the BRD had RWF 1.4 billion in outstanding concessional loans from the BNR, the Arab League, KFW, and the World Bank (IDA). In addition, the BNR has negotiated new funding from the European Development Fund (ECU 600,000), the African Development Bank (UC 5 million), and the World Bank (SDR 8.5 million). The BRD is expected to receive a FS 5 million grant from the Swiss government to finance a brick-making factory and a $350,000 grant from the UNDP for long-term technical assistance to the SME Evaluation Unit. Other prospective donors are the Dutch Development Finance Corporation, BADEA, the Government of Belgium, and the KFW. As the only industrial development bank in the country, the BRD does not lack donors eager to fund its activities.

USAID, as part of the Policy Reform Initiatives in Manufacturing and Employment Project (PRIME), has also proposed to provide $3.5 million in local currency funds to the BRD for its SME loan activities and $45,000 for training. The BRD's need for loan funds at present is questionable. It projects that during 1986-1988 it will have a surplus in foreign exchange funds for loans to purchase imports and a deficit in local currency to fund the portion of loans used for domestic purchases. The World Bank, however, could allow its line of credit to finance domestic costs if AID funding were not available, thereby addressing this

imbalance. Local currency funds were not included in the fourth IDA project design since they were not believed to be needed at that time. Thus, it is suggested that AID reprogram its funds so that they may be used for other useful activities that lack donor funding. Expatriate advisors are already being provided for the SME Evaluation and the Supervision units. A re-evaluation of the BRD's other technical assistance and training needs would be useful. In late 1986, the BRD submitted another proposal to USAID/Kigali to help establish a development fund that would finance small rural enterprises (through existing bank branches) and would guarantee such loans. USAID/Kigali should examine carefully the administrative structure and potential financial viability of this innovative proposal prior to deciding whether it merits USAID grant funds.

ADMINISTRATION

Organizational Structure

The BRD has three major departments:

- Investment, responsible for project appraisal and supervision, including a special SME Evaluation Unit to analyze SME loan requests;
- Administration and Finance, in charge of loan disbursement, collection, accounting, and donor relations; and
- Studies and Development, to conduct macroeconomic studies and analyze the development impact of loans.

The BRD does not have any branches to analyze and approve loans. In 1985, the bank established a small regional bureau in Gikongoro staffed with two professionals to identify prospective projects. All loan requests are still forwarded to the central office. The lack of decentralized operations contributes to lengthy loan processing time, increases hidden transactions costs to borrowers (for example, transportation costs to Kigali), and may help to explain the high non-repayment rates among enterprises outside Kigali. BRD loan officers, in many cases, do not know the reputation and character of those to whom they lend. Unfortunately, given the relative lack of viable projects outside Kigali that can absorb the comparatively large loans disbursed by the BRD, the cost of establishing and operating branches would not be compensated by their revenues.

Internal Credit Procedures

The internal credit procedures adopted by the BRD for its SME loan portfolio are cumbersome and inefficient. Typically, one to two years elapse between loan request and disbursement. The bank's procedures are more appropriate for larger enterprises that are familiar with bank loan requirements and maintain financial records. Smaller enterprises usually need a great deal of assistance from loan officers to determine their financial needs, prospects and capacity. The SME

Evaluation Unit does attempt to fulfill this role, but further assistance to entrepreneurs is needed. The addition of one full-time expert to the SME Evaluation Unit, funded by the UNDP, should strengthen this unit and modify procedures so viable SMEs receive loans on a more timely basis. Ideally, the BRD should collaborate with the Banques Populaires so that known their members may graduate to receiving longer-term financing from the BRD.

Generally, the loan application procedure starts with a letter received by the SME Evaluation Unit from a potential client requesting a loan. In 1984 and 1985, the six-person SME unit received 344 and 751 loan requests respectively. Usually these letters contain little information on the nature and total investment needs of the activity to be funded. If the purpose and size of the loan meet BRD criteria, the evaluation service writes a letter back requesting additional information on expected sales, expenses, type and value of guarantees, investment requirements, and capital to be invested by the entrepreneur. Clients respond within two to six months, but generally the information provided is inadequate. If the project looks promising, a member of loan evaluation staff visits the entrepreneur and project site. However, few projects make the grade. In 1984 and 1985, 140 and 572 requests, respectively, were rejected without further analysis.

A detailed feasibility study is prepared on each project that appears viable. The depth of each study is the same irrespective of the loan size and takes about one month to complete. Hindsight shows that market analysis often has been inadequate and assumptions on expected cash flow sometimes have been overly optimistic. No sensitivity analysis is included nor is the character of individual verified. The BRD rarely knows whether the loan applicant has ever had a loan before from another bank.

The feasibility study of projects judged to be viable by the SME Evaluation Unit are then presented to a credit committee, which can approve loans up to RWF 3 million. This committee is composed of senior bank management and meets once per month on average. Loans above that amount must be presented to BRD's Board of Directors, which includes representatives of BRD shareholders (GOR, CCCE, etc.). If the BRD wishes to refinance such loans with donor funds, the dossiers must be sent to the respective donor for its approval. However, for SME loans such approvals are fairly automatic.

Any loans needing a guarantee from the FSG must be approved by this agency as well. Guarantees made by the BRD's own guarantee fund are approved automatically. All loans are fully collateralized or are covered by guarantees from one or both funds. If the client lacks acceptable collateral, the FSG is used to cover 80 percent of loan principal and the BRD's own fund guarantees 80 percent of the remaining principal plus interest payments.

After the loan has been approved, the Supervision Unit assumes responsibility for loan disbursement and supervision. All commissions must be paid when the client signs the loan agreement, which specifies what requirements must be met prior to loan disbursement. Generally, this involves proving that the loan recipients have indeed invested their own funds in their projects. Staff members of the Supervision

Unit conduct on-site examinations to verify that an investment has been made. After tangible proof has been found and a report written, the first tranche of the loan is disbursed.

Until late 1985, the Supervision Unit had only two staff members and a foreign technical advisor to follow all loans approved by the BRD. This number was too small to supervise loans adequately. The Supervision Unit barely had sufficient staff time to verify whether loan terms had been met by clients prior to disbursement. Clients' progress was not analyzed nor was any technical assistance provided.

The poor quality of the SME portfolio has caused some action to be taken: the Supervision Unit has been strengthened, and the Loan Recovery Unit has begun legal proceedings against some delinquent clients. New staff members were recruited so that the Supervision Unit had five professional staff members as of early 1986. The Unit has analyzed the problems affecting each delinquent loan and plans to supervise clients more carefully throughout the loan period.

However, the BRD does not have the capacity to offer technical assistance to those clients that require it. The formation of such a unit would be costly and generally has not had successful results when attempted by other development banks. Clients usually prefer to separate their bankers from those who require the full disclosure of accurate information necessary to provide useful technical assistance. Technoserve, a private non-profit management assistance organization located in Kigali, currently provides management and accounting assistance to a few of the BRD's delinquent clients. It is suggested that the BRD exploit this AID-funded organization as fully as possible in the future. To be most effective, technical assistance needs should be identified during the loan appraisal period and provided from the very beginning of the project. In some cases, the acceptance of such technical assistance should be a requirement attached to receiving the BRD loan. To date, Technoserve advisors have been brought into projects only after the BRD loan has fallen delinquent. Often this is too late to effect the changes necessary to revive the project.

Management Information System and Internal Inspection and Controls

The BRD's management information system is excellent. Data on the BRD's financial status are up to date and voluminous. They are also prepared by hand. Given the heavy, constant data requirements for the BRD's internal purposes and donors, it might be useful to investigate the cost-effectiveness of computerizing the BRD's accounting and management information system.

Development banks throughout the world are often the targets of political pressure to invest in projects of dubious economic or financial merit but that fulfill strategic or domestic governmental interests. Although the BRD has not escaped this fate entirely, such pressure has been relatively minimal. Nevertheless, given the general vulnerability of development financing institutions and their typically poor financial condition in most developing countries, the BRD's independence should be carefully guarded.

Unlike all other financial institutions in Rwanda, the BRD employs an independent accounting firm based in Nairobi to audit its accounts. Thus, its financial statements can be assumed to reflect its true financial situation more accurately than other Rwandan financial institutions discussed in this report.

Staff Capability, Productivity, and Efficiency

The Investment Department has 22 professional staff members, of whom one-half have been with the BRD for fewer than two years and are considered to be in a training stage. The BRD has requested donor funds for training courses and to help defray the cost of hiring additional staff. Since SME loans are already an unprofitable activity for the BRD, the tradeoff between increasing staff versus adopting new procedures to increase their productivity should be carefully examined. The experts required to analyze specific technical issues relating to agricultural loans, for example, might be hired on a consultant basis rather than adding them to the full-time staff. The number of BRD loans would have to increase substantially to justify sizable staff increases. In 1985, the BRD approved 37 new loans of which 33 went to SMEs.

Two years often elapse between SME loan request and disbursement. No easy solutions to reduce this time lag exist, given the current credit procedures, organizational structure, and staffing of the BRD. Much of the delay is caused by clients not responding to BRD requests on a timely basis. However, since this is the first loan request that most smaller enterprises have made, it is not surprising that they require a great deal of assistance in completing a loan request. The other causes for delay are the heavy workload on BRD staff and lags sometimes caused by the need for donor approvals of subloans.

The BRD should attempt to reduce the delay on both ends. Procedures for smaller loans should be simplified and loan analysis rely heavier on the client's character, management ability, and collateral rather than the results of a detailed feasibility study.

FINANCIAL PERFORMANCE

Financial Condition and Profitability

Despite problems in its SME portfolio, the BRD is still financially sound. Its debt/net worth ratio has never exceeded 1:1. The BRD's substantial equity base allowed one-half of all assets to be financed by its net worth in 1985. Its debt service coverage is good, and adequate provisions for possible losses have been constituted. The foreign exchange risk on foreign currency loans is borne completely by the GOR.

BRD's net profits declined from RWF 73 million to RWF 12 million during 1982-1985. The return on average assets dropped from 3.8 to 0.004 during this period. Since revenues have steadily increased, this reduction in profitability is explained primarily by a dramatic increase in provisions for bad debts, the increased cost of the BRD's financial resources, higher administrative expenses, and the depreciation charges associated with the new BRD building. The BRD's profitability should improve in 1986 as losses resulting from to its large loan to SOMIRWA are recovered.

Interest rates paid by BRD on its foreign loans range from 0.75 to 9 percent, with the average cost of loans never exceeding 3.5 percent. During 1982-1985, interest income from all BRD loans was about 11.2-11.9 percent of outstanding loans. An analysis conducted by the BRD shows that, while the average interest return on all loans allows the institution to cover its costs and remain profitable, the spread on its SME loan portfolio is insufficient to cover its SME administrative costs and provisions. In 1983, for example, the interest rate on SME loans was 11 percent, while administrative and financial costs associated with such loans were almost 19 percent of loan value. This situation appears to have improved by 1985 so that SME interest rates were only 0.3 percent less than related expenses. Nevertheless, the BRD's portfolio of large loans and investments still subsidizes its SME activities.

However, the effective yield to the BRD on many of their loans may be much higher than their nominal interest rates as reflected by the following list of charges:

Item	Percent	Explanation
Loan fee:	0.75	on total loan amount
Committment fee on unused loan amount	1.00	on amount of loan falling funds behind disbursement schedule
Fee on issuance of guarantees:	3.00	on principal and interest covered by either the FSG or BRD's guarantee fund
Interest rate:	12.5	on loans to agriculture, livestock, and industry
	13.5	on loans to commerce and services

In addition, following Central Bank recommendations to the deposit money banks, interest is capitalized after being overdue for 30 days (charges are accrued the day after the payment was due) and a penalty fee of 4 percent is charged on overdue principal and interest payments. The effective cost of a BRD loan from its clients' perspective is even higher if hidden transaction costs -- the value of the entrepreneur's time, travel costs to the BRD office, and other expenses associated with getting a loan -- are included.

Development bank procedures in many countries result in high transaction costs to borrowers; however, the borrower often is compensated for these invisible costs by receiving low interest loans. BRD loans are relatively expensive when interest charges, commissions, guarantee fund fees (some of which accrue to the BRD), and penalty measures are added up, and transaction costs to borrowers are high. Since the high administrative costs and bad debts associated with SME loans require high effective rates on loans to be charged, until these costs are reduced it is not recommended that the BRD lower its interest rates. Thus, it is incumbent upon the institution to reduce hidden transaction costs to borrowers as much as possible.

Portfolio Quality and Repayment Rates

Loan payments more than three months overdue as of September 30, 1986 amounted to RWF 158 million of a total portfolio of RWF 2.1 billion in outstanding loans. Portfolio quality is good by development bank standards; total arrears were only 7 percent of outstanding loans. About 60 percent of arrears over three months stemmed from two enterprises; the BRD is about to receive payment to cover SOMIRWA's debt, but the status of Rwakina's loan remains questionable.

However, if the entire outstanding amount of loans with payments overdue more than three months is regarded as questionable, about 21 percent of the total portfolio is affected by arrears, as shown in Table 21. The percentage is far higher for smaller enterprises; over one-third of the small enterprise portfolio is constituted by loans overdue by more than three months.

TABLE 21

BRD PORTFOLIO ARREARS SEPTEMBER 30, 1986
(in millions of RWF)

Scale of Enterprise	(a) Amount Over 3 Months Overdue	(b) Portfolio Affected by Such Arrears	(c) Total Portfolio	a/c	b/c
Small	29	86	256	.11	.34
Medium & Large	129	351	1,873	.07	.19
Total	158	437	2,128	.07	.21

Repayment performance among BRD's SME clients has always been poor. During 1975-1981, of the 21 enterprises that received loans, 15 were late (71 percent), and almost half of SME outstanding loans were overdue. Of the 92 SMEs funded in 1982-1985, 50 were delinquent (among which are 35 grain mills), representing 54 percent of clients. As shown in Table 22, the non-repayment rate of small and medium projects is 58 and 51 percent respectively. This figure would not be so alarming if most payments were under six months late, since the probability of eventual repayment of such loans would be good. However, almost 70 percent of late payments for small project loans are over six months delinquent (54 percent are over 12 months late), greatly decreasing the probability that they will be repaid.

The BRD's analysis of delinquent clients identified several reasons for non-repayment. They are categorized into four groups:

- Inadequate investment from the entrepreneur;
- Misuse of funds;
- Incompetence of entrepreneur; and
- Non-viability of project.

Small and medium projects must have a 20 and 35 percent contribution from their promoters toward total investment costs to receive BRD funding. Unfortunately, some entrepreneurs borrow funds from informal third party sources to fulfill the BRD equity requirements, thereby increasing the enterprise's debt burden and reducing its chances for financial viability, as projected by the Evaluation Unit. Little can be done to prevent this from occurring. Some entrepreneurs have diverted loan funds to finance non-enterprise related costs, including personal consumption. The Supervision Unit has tightened its requirements for loan disbursement (for example, requiring the presentation of pro-forma invoices) to help reduce the second problem. The lack of management and technical capacity of delinquent clients can only be mitigated through the provision of technical assistance, as performed by Technoserve. Technical assistance to clients must be strengthened further. And, the poor performance of clients that have not succumbed to the first three problems is chiefly due to overly optimistic assessments of the market for their products. The market analysis capacity of the SME Evaluation Unit will be improved through the provision of technical assistance.

The BRD has begun to take action to improve collections. Reducing the number of new SME clients, stricter loan disbursement procedures, more intensive supervision of clients, and prosecuting severely delinquent borrowers may be having a positive effect. The BRD's collection performance on all loans, as measured by the ratio of the amount collected during the year (including arrears from prior years) to loan maturities for the year under consideration, did improve in 1986. Since 1985 this collection ratio has surpassed 100 percent, indicating that the BRD has had some success in collecting loans overdue from prior years.

TABLE 22

BANQUE RWANDAISE DE DEVELOPPEMENT
ANALYSIS OF DELINQUENT LOANS BY PROJECT SIZE: DECEMBER 31, 1985
(millions of RWF)

Project by Size	(a) Outstanding Principal	(b) Principal Due During the Period	(c) Amount of Overdue Principal	Non-Repayment Rate: Amount of Overdue Principal / Principal Due During the Period (c/b)	Non-Repayment Rate: Overdue Payments by Scale of Project / Total Amount Overdue	Age of Delinquencies (by amount) (months): 0-3	4-6	7-12	>12	Portfolio Quality (c/a)
Small Project	266	24	14	58	8	3	2	2	7	.05
Medium Project	179	29	15	51	9	2	1	2	10	.08
Big Project	1625	429	135	31	83	46	0	11	78	.08
TOTAL	2070	482	163	34	100	50	3	14	95	.08
Percentage	-	-	100	-	-	31	2	9	58	

SOURCE: BRD.

CLIENT PROFILE

During the 1980s the composition of BRD's loan portfolio has changed significantly. Loan terms have lengthened, geographic distribution has widened outside Kigali, and the mix of economic sectors funded by the bank has been more evenly distributed. Loan maturities range from four to 15 years, with an average loan maturity of 7.5 years and an average grace period of 1.3 years. In 1979, three quarters of loans approved were under four years in term whereas in 1984, only 1 percent were in this category. In the 1970s, transport and tourism dominated BRD lending, whereas by 1985 95 percent of the number of new loans (92 percent by amount) were for agriculture and industry (see Table 23). Although loans to enterprises located in Kigali receive the bulk of BRD funding (84 percent of the value of new loans approved in 1985), they represent less than one-half of the number of new loans approved in 1985. Loans have been provided to projects in all of Rwanda's 10 administrative units (prefectures).

Despite the introduction of the SME program, a significant decrease in the numbers of new loans under RWF 1 million caused the BRD's average loan size to almost double from RWF 8 million to RWF 15.5 during 1983-1985 (see Table 24). The average SME loan increased from RWF 3.5 million to RWF 6.8 million during the same period.

RECOMMENDATIONS

The BRD plays an important part in Rwanda's economic development. Its decision to enter the SME financing arena, knowing well the risks and costs, was commendable. With the benefit of hindsight, it appears that the BRD moved too quickly into this difficult activity. It has wisely decided to decelerate its SME lending operations and focus on improving collections.

The BRD's organizational structure, with no branch offices, cumbersome procedures, and relatively high minimum loan size, limits its target group to the top end of the distribution of Rwanda's enterprises. BRD management claims that a chief problem is the lack of bankable SME projects presented to the institution. Given Rwanda's stage of economic development, it is likely that there is a lack of bankable medium-scale projects needing BRD financing. It should be recognized, however, that there may be a high unfulfilled demand, particularly for short-term loans from micro and smaller scale enterprises. The BRD, as currently organized, is not an efficient mechanism to serve this need and should not attempt to reach this target group. Nevertheless, its concept of establishing a development fund that would finance small rural enterprises through existing bank branches should be examined further.

TABLE 23

BRD APPROVED LOANS BY SCALE AND SECTOR
(in millions of RWF)

Year / Sector	1982 Large	1982 SME	1982 Total	1983 Large	1983 SME	1983 Total	1984 Large	1984 SME	1984 Total	1985 Large	1985 SME	1985 Total
Primary	-	9.75	9.75	154.60	14.80	169.40	-	56.70	56.70	-	56.10	56.10
Agriculture	-	1.50	1.50	14.60	0.90	15.50	-	19.50	19.50	-	20.90	20.90
Livestock	-	8.25	8.25	140.00	13.90	153.90	-	37.20	37.20	-	35.20	35.20
Secondary	225.00	3.00	228.00	67.00	45.80	112.80	206.00	27.25	233.25	336.00	127.90	363.50
Mining		-	-	-	1.20	1.20	-	-	-	-	-	-
Agro-industry	185.00	3.00	188.00	12.00	15.80	27.80	65.00	16.25	81.25	56.00	55.40	111.00
Manufacturing	40.00	-	40.00	55.00	28.80	83.80	141.00	11.00	152.00	280.00	72.50	352.50
Tertiary	-	29.00	29.00	64.00	132.00	196.00	307.00	319.00	326.00	16.00	39.00	55.00
Transport	-	-	-	-	8.00	8.00	-	[illegible]	-	-	-	-
Hotels	-	5.50	5.50	-	81.50	81.50	150.00	2.50	152.50	16.00	31.00	47.00
Commerce & Services	-	23.50	23.50	64.00	42.50	106.50	157.00	13.50	170.50	-	8.00	8.00
TOTAL	225.00	41.75	266.75	285.60	192.60	478.20	513.00	102.95	615.95	352.00	223.00	575.00
Index 100 = 1982	100	100	100	127	461	178	228	245	230	156	531	215
Number of Projects Approved	2	16	18	7	54	61	8	43	51	4	33	37
Index 100 = 1982	100	100	100	350	338	339	400	269	283	200	206	200

Source: BRD.

Instead, the BRD should focus on streamlining its current operations, improving the capacity of its staff, and selectively funding SME activities. Clients' technical assistance needs should be identified during loan appraisal and required as a precondition of loan disbursement. The Supervision Unit may provide spot checks on clients' status, but any intensive technical assistance needs should be supplied by an outside agency.

TABLE 24

DISTRIBUTION BY SIZE OF NEW BRD LOAN APPROVALS 1983-1985

Loan Size (in thousands of RWF)	1983 Number	1983 Amount (in '000s)	1984 Number	1984 Amount (in '000s)	1985 Number	1985 Amount (in '000s)
200-1,000	32	13,419	18	6,846	2	1,100
More than 1,000-10,000	18	82,690	24	85,100	27	70,900
More than 10,000-50,000	8	187,100	5	129,000	5	167,000
More than 50,000	2	195,000	4	395,000	3	336,000
TOTAL	60	478,100	51	615,946	37	575,000

Source: BRD 1985 Annual Report.

If the World Bank allows the BRD to use its loan to fund local currency costs, then according to its own projections, the institution should have no need for USAID funds for lending purposes in the near future. However, it is suggested that the USAID mission re-examine the BRD's needs for technical assistance and training, bearing in mind the UNDP's decision to provide a full-time advisor to the SME Evaluation Unit.

CHAPTER SEVEN

INFORMAL FINANCIAL SECTOR

OVERVIEW

The term "informal financial sector" as used in this report covers all financial activities outside of institutional and officially regulated finance. It includes finance provided by rotating savings and loans societies (tontines or ibimina), professional and non-professional moneylenders, traders, employers, and households. Its characteristics include easy entry, freedom from government regulation, social relationships between borrowers and lenders, and small-scale operations. A thriving informal financial sector indicates that the formal financial system has not yet deepened enough to meet the financial needs of the population. The volume of transactions ocurring in the informal sector, as indicated by the Household Budget and Consumption Survey (Enquête Nationale de Budget et Consommation, [ENBC]), case studies, and conversations with key informants, indicates that wide scope exists for mobilizing rural savings and intermediating funds to rural dwellers. Rural banks can build upon the solid foundation of tontines, for example, to serve as efficient conduits of loans for investment and consumption and to tap rural savings.

PRELIMINARY FINDINGS OF THE HOUSEHOLD BUDGET SURVEY

Methodology

The rural component of the Household Budget and Consumption Survey was carried out in 1983. A team of economists and statisticians including some supplied through AID's worldwide Employment and Enterprise Policy Analysis Project, funded by USAID/Kigali's PRIME project, are involved in the cleaning and analysis of these data. Results presented in this report are preliminary and will be strengthened as additional questionnaires are analyzed.

One of the six questionnaires (Q4) examined the daily transactions of 270 rural households chosen in a random way around the country. Interviews were conducted each day over four two-week periods over the year, thereby covering 56 days in total. The interview periods were three months apart for each household, but the months during which interviews were conducted varied among households. All transactions (purchases, sales, gifts, loans, deposits, and barter) done that day were registered for each of the 270 households.

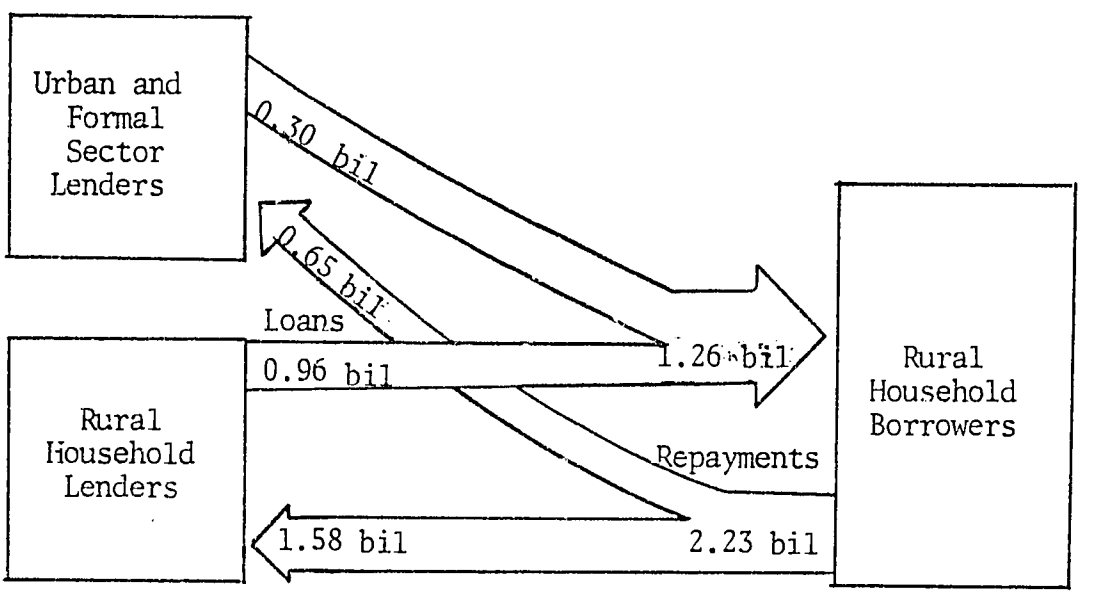
Another questionnaire (Q2) was administered to 1,170 households (including the 270 households of Q4) and recorded all of the large transactions completed during the previous three months. These data had not been cleaned and analyzed at the time of this consultancy but should improve the quality of results from Q4, particularly with respect to large infrequent transactions. Thus, the results from Q4 are subject to further modification and should be treated with care.

Credit Transactions

Rural households participate in credit transactions both as lenders and as borrowers. Survey results (Questionnaire Q4) weighted to a national level indicate that, in 1983, rural households borrowed FRW 1.26 billion, and made loan repayments of FRW 2.23 billion (see Table 25). Looking at the lending transactions of the same group of households, they made loans in 1983 of FRW 0.96 billion, while loan repayments received amounted to FRW 1.58 billion.[1] These figures make clear that rural household borrowers received and repaid loans substantially larger than the corresponding transactions of rural household lenders. As Table 25 makes clear, the difference between these two reflects net transactions with urban and formal sector lenders.

TABLE 25

RURAL HOUSEHOLD CREDIT TRANSACTIONS
(weighted to national aggregates, in billions of RWF)



Source: ENBC

The excess of repayments over loans, from both borrowers' and lenders' point of view (FRW 2.23 billion compared to 1.26 billion, for borrowers; FRW 1.58 billion, compared to 0.96 billion, for lenders) might be explained in terms of several factors:

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[1] As a comparative indicator, the deposit banks had RWF 8 billion in outstanding loans to the private sector -- primarily in urban areas -- at 1983 year end.

- High effective interest rates are charged on informal credit transactions;
- In 1983, rural households were repaying loans received in earlier years;
- The time periods during which rural households were interviewed overrepresented periods of repayment;
- Interviewed households overrepresented borrowers.

The fact that the value of borrowing was 39 percent greater than lending and that repayment of loans was 41 percent greater than recovery of loans indicates that net borrowing occurs from outside the population of rural households that formed the sample.

About 52 percent of households interviewed were involved in repaying loans, while 20 percent had disbursed loans. During the 56-day period, 37 percent received loan repayments and 34 percent received loans.

At the household level the value of loans disbursed by those households giving loans was RWF 849 per year per household and of loans received was RWF 1,184. The average value of income received from loan repayments was RWF 1,487 while income disbursed for loan repayment was RWF 2,102. About 95 percent of these transactions were in cash rather than in kind.

About 80 percent of the value of lending and borrowing activities were done by the two highest income quintiles of survey respondents. Thus, in terms of the volume of money, loans in rural areas seems to be primarily among high-expenditure families. However, as a percentage of the total household budget, lending and borrowing do not show a consistent pattern.

Friends and neighbors supplied the bulk of the value of loans -- about 68 percent. Family members supplied 16 percent, followed by merchants (8 percent), employers (5 percent), societies (2 percent), and other (1 percent). Loans from merchants and employers, although fewer in number, were much larger in average size than those received from friends and family (see Table 26).

The most frequent loan term was two months (40 percent of the value of loans) with about 80 percent of loans two months or less in term. The average two month loan was for RWF 1,460 (see Table 27). As shown in Table 28, only 24 percent of loans were greater than RWF 5,000.

TABLE 26

HOUSEHOLD BUDGET SURVEY RESULTS
NUMBER AND VALUE OF LOANS BY SOURCE

Source	% of all Transactions	% of Total Value	Value per Household per Year (RWF)	Average Size per Transaction (RWF)
Relatives	19	16	161	980
Neighbor/ Friend	76	68	701	1,079
Merchant	1	8	81	9,100
Employer	1	5	53	6,000
Savings Society (tontine)	2	2	25	1,900
Other	1	1	12	1,300
TOTAL	100	100	1033	20,359

Source: ENBC

TABLE 27

HOUSEHOLD BUDGET SURVEY RESULTS
NUMBER AND VALUE OF LOANS BY TERM

TERM	Percentage of Transactions	Percentage Transactions	Average Value per Transaction	Value x Weeks
Less than 1	6	3	572	0
2 weeks	11	15	1,543	121,664
3 weeks	3	1	336	2,052
1 month	34	26	900	1,387,131
2 months	33	40	1,457	2,507,838
3months	6	6	1,175	179,631
4 months	2	1	657	8,365
5 months	1	0	1,000	1,769
6 months	1	1	900	7,643
7-12 months	3	4	1,800	149,692
13-24 months	1	4	10,000	53,082
TOTAL	100	100	-	-

Source: ENBC
Note: Discrepancies due to rounding

TABLE 28

HOUSEHOLD BUDGET SURVEY RESULTS
SIZE DISTRIBUTION OF LOANS RECEIVED

Classnom	Uweighted Value (FRW)	Percent Value	Number Observed	Percent Observed
1-200 FRW	10,173	19	123	71
201-500 FRW	12,620	24	32	18
501-1000 FRW	12,170	23	14	8
1001-5000 FRW	5,700	11	3	1
Over 5000 FRW	12,500	24	1	0
TOTAL	53,163	100	173	98

Source: ENBC

Savings Transactions

Little data on savings transactions had been analyzed by late 1986. Preliminary results indicate that savings activities through rotating societies and rural banks were as extensive as credit activities. Survey results weighted to a national average indicate that Rwandan rural households withdrew about RWF 2.3 billion during the eight-week surveyed period and deposited about RWF 803 million. The figures on deposits, based on small and relatively frequent transactions, are more reliable than those for withdrawals, which tend to be larger and more infrequent. These data are currently being analyzed to explore further the discrepancy between the two figures.

About 12 percent of families withdrew funds while 5 percent deposited funds. The average deposit size per household per year was RWF 757 while the average withdrawal was RWF 2,194. The top two income group quintiles accounted for 75 and 95 percent of deposit and withdrawal transactions respectively. As shown in Table 29, tontines and the Banques Populaires still play a relatively minor role as sources of withdrawals. As the Banques Populaires become more widespread, their importance as a mechanism to capture savings will grow.

TABLE 29

HOUSEHOLD BUDGET SURVEY RESULTS
NUMBER AND VALUE OF WITHDRAWALS BY SOURCE, 1983

Source	Percentage of all Transactions	Percentage of Total Amount	Average Value per Household per Year
Tontine	3	7	117
Banques Populaires	5	16	289
Other	92	77	1,356
TOTAL	100	100	1,762

Source: ENBC

TONTINES

Overview

Tontines are rotating savings and credit societies that have deep historical origins throughout Africa, Asia, and the Caribbean. Case studies suggest that their growth is a relatively recent phenomenon in Rwanda. They are organized among socially cohesive groups ranging in size from a few members to over 130 participants. Each member donates a fixed sum at an agreed interval (usually once a month) and then one member receives the entire amount at each meeting. The first recipient of funds is thus a pure borrower, while the last is a pure saver. As a "saver depositor," the longer the duration until receiving the entire sum, the higher is the implicit rate of interest paid. To receive payment-repayment schedules to meet cash flow patterns, individuals may join more than one tontine, as case studies in Rwanda indicate.

In Rwanda the decision of who receives the entire pot of money is made in two ways: either purely by chance, with members drawing numbers that represent their turn at the beginning of each cycle, or the President of the tontine making a decision based upon need. The Asian system of auctioning the fund to the highest bidder is apparently not found in Rwanda.

Kivuye Commune Case Study Results

Kivuye is one of 17communes in the Byumba prefecture that borders Uganda. It covers an area of about 75 square kilometers with a population of 21,700 inhabitants that are primarily engaged in growing potatoes, peas, corn, and tobacco. In July-December 1985, IWACU, a cooperative assistance organization, conducted a survey of tontines in the area at the request of the Banques Populaires.

Interviews with tontine members indicate that the first tontines appeared in 1965. They were formed by individuals that had worked in Uganda where such group savings societies were common. Before the introduction of tontines, groups would form on a regular basis to drink, socialize and perform small services as needed for members. Loans were made by individuals at high rates of interest.

By the end of 1985, as shown in Table 30, the commune had 95 tontines with 5,281 members. Since some individuals are members of more than one tontine, it is unknown what percentage of the adult population are members. The number of members ranged from 8 to 132 with only one with less than 10 members. A tontine with 132 members and monthly meetings implies that each member receives a windfall once every eleven years. Tontines in other parts of the country are said to be much smaller. About one-half the tontines charged RWF 200 per meeting for distribution. The total amount raised through the tontines each month was RWF 1,548,650 or about RWF 18.6 million per year (see Table 31).

TABLE 30

KIVUYE TONTINES:
DISTRIBUTION BY NUMBER OF MEMBERS

Number of Members	Number of Tontines
Less than 10	1
10-19	4
20-29	11
30-39	10
40-49	15
50-59	15
60-69	11
70-79	13
80-89	8
90-99	2
More than 100	5
TOTAL	95

Source: "Interrelations: Banques Populaires - Tontines Traditionnelles (Cas de Kivuye)," IWACU.

TABLE 31

KIVUYE TONINES:
DISTRIBUTION BY AMOUNT OF CONTRIBUTION

Amount of Contribution per meeting	Number of Tontines
Less than 100	0
100	2
120	1
150	5
200	48
250	5
300	19
350	2
400	5
450	1
500	3
550-950	0
1000	1
3000	1
5000	1
10000	1
TOTAL	95

Source: "Interrelations: Banques Populaires - Tontines Traditionnelles (Cas de Kivuye)," IWACU.

The tontines in the region are fairly well organized. Each group has a director, sub-director, a secretary-treasurer, and two advisors. A police office is present at each meeting for security reasons. The tontines are registered with the government and must pay RWF 400 each year. This is viewed by members as payment for the services that communal civil servants provide. A reserve fund is also established to cover irregular payments of members.

Members of the Banques Populaires in the area -- including Conseil d'Administration and Conseil de Surveillance officials -- also belong to tontines. Since the sums collected each month are often small, tontine members consider it inconvenient to journey to the bank to make deposits, even if their deposits do earn interest. However, discussions with local bank officials indicate that the winners of the tontines often deposit their earnings in an account for security.

TABLE 32

AMOUNT OF SAVINGS RAISED THROUGH THE TONTINES OF KIVUYE

Region	Numbers of Tontines	Numbers of Member	Contribution Per Month	Per Year
Bungwe	10	486	240,750	2,889,000
Tumba	9	539	136,700	1,640,400
Gishambashayo	7	452	97,000	1,164,000
Gatengerane	14	666	158,500	1,902,000
Bushenya	10	759	154,900	1,858,800
Mudugali	9	488	107,700	1,292,400
Gatebe	9	408	163,500	1,962,000
Kivuye	12	619	292,500	3,510,000
Rwasa	6	231	70,500	846,000
Shanja	8	633	126,600	1,519,200
Total	95	528	1,548,650	18,583,800

SOURCE: "Interrelations: Banques Populaires - Tontines Traditionnelles (Cas de Kivuye)," IWACU.

Kanama Case Study Results

A case study of Kanama commune indicates that the system is just as prevalent in the area bordering Zaire. In September 1985 Kanama had 302 tontines with a total of 7,407 members. More than 70 percent of these tontines were established after 1981; only 25 existed before 1975. Ten of the tontines were exclusively female while the rest included men and women. The local Banque Populaire, in contrast, had 1,200 members. The case study author speculates that the number of tontines is actually much higher; many do not register to avoid paying the annual fee and being controlled by the government. The annual amount of savings raised through these tontines is about RWF 28.6 million; the local Banque Populaire had RWF 10 million in deposits.

THE ROLE OF MERCHANTS

Discussions with the staff of a recently established Banques Populaires branch indicate that the bank may be replacing some of the functions previously performed by local merchants. In one section within Gitarama prefecture, in a twist on typical farmer/merchant relations, the farmers were net creditors to merchants. After the harvest they would make a deposit with a local retailer that might earn interest depending on the amount and term. This would form the basis of an account that could be used to purchase consumer goods from the merchant or, if necessary, funds could be withdrawn on demand. Apparently a key motivating factor was the desire to deposit funds in a secure place.

The more typical role played by Rwandan merchants involves wholesalers providing short-term supplier's credit to retailers and retailers providing credit for goods purchased by steady customers. Usually, there is no implicit charge for these forms of credit -- usually only 30 days in term -- but are included within the cost of doing business and passed on in the form of higher prices.

Local merchants also provide cash loans in times of emergency. Such loans can cost as much as 15 percent per month and thus serve only as a last resort. Another high-priced form of credit is that many farmers are forced to sell their crops to buyers before harvest at a greatly reduced price. This activity, albeit illegal, is widespread during the soudure period.

RECOMMENDATIONS

All studies indicate that Rwanda has an extensive informal financial system in rural areas. The potential for financial institutions to capture savings and intermediate funds to productive rural activities is high. Given the fungibility of money, rural banks should not try to restrict loans by purpose. A small loan to an artisan for working capital might actually be used by another family member to purchase agricultural inputs. Or, it might be used for purely consumption purposes, allowing farmers to wait to sell their cash crop and receive a higher price. What should be of primary concern is establishing an appropriate interest rate structure and scrutinizing loan repayment rates. If (1) deposit rates are sufficiently high to mobilize savings (positive in real terms), (2) the lending rate covers the banks' cost of funds and transaction costs, and (3) repayment rates are high, it may be assumed that funds are being used productively.

To compete, the formal sector needs to adopt a financial mechanism that copies the more desirable features of the informal system: easy geographic access to clients, few paperwork requirements, small loan amounts for a term of a few months, security, and based on socially cohesive groups. The average informal loan size is much lower and term length much shorter than loans disbursed by the Banques Populaires. Entering this market could be an extremely profitable and productive endeavor. Rural banks in Indonesia, for example, disburse loans from $5-200 with an average loan term of three months. The clients' first loan is extremely small; if repaid on time, another somewhat larger loan is disbursed.

Further study is needed on the demand for credit in rural areas. Some past studies have had an implicit bias; for example, a donor wishing to fund equipment loans commissioned a study that demonstrated high demand for equipment loans. Instead, an in-depth examination of informal sector credit characteristics and uses should be conducted to learn how to complement this indigenous system. The relationship of informal credit and savings mechanisms to agricultural and micro enterprise needs, in particular, would be useful to design a strategy to assist them further. Since a key government objective is to increase off-farm employment opportunities, the relationship between Central Bank capital market policies, the deepening of Rwanda's financial system, and enterprise productivity and employment generation needs careful review.

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ANNEX

FINANCIAL STATEMENTS OF RWANDAN BANKS

ANNEX

BANQUE COMMERCIALE DU RWANDA: BALANCE SHEETS
DECEMBER 31 1982, 1983, 1984, 1985
(in millions of RWF)

	1982	1983	1984	1985
ASSETS				
CURRENT ASSETS				
Cash, BNR, CCP	255	165	120	313
Banks and other IFIs	1412	764	629	925
Short term loans	3081	3139	3632	3846
Overdrafts	9	86	132	367
Accounts receivable	713	1475	985	1001
Adjustments	132	235	319	150
TOTAL CURRENT ASSETS	5602	5864	5817	6602
MEDIUM/LONG TERM ASSETS				
Medium Term loans	295	321	424	721
Long Term loans	188	197	188	261
Government Bonds	650	750	1230	1500
Equity investments	52	72	72	72
Fixed Assets	245	244	293	286
TOTAL MEDIUM/LONG TERM ASSETS	1430	1584	2207	2840
TOTAL ASSETS	7032	7448	8024	9442
LIABILITIES				
CURRENT LIABILITIES				
BNR	282	378	609	1389
Banks and other IFIs	175	468	426	294
Deposits				
Savings	3287	3237	3677	4305
Term	1249	553	783	664
Others under 1 year	633	474	389	610
Accounts Payable	713	1475	985	1001
Adjustments and Provisions	306	385	331	300
TOTAL CURRENT LIABILITIES	6645	6970	7200	8563
LONG-TERM LIABILITIES				
Special term deposits	54	113	421	471
Savings bonds	0	0	26	26
TOTAL LONG-TERM LIABILITIES	54	113	447	497
TOTAL LIABILITIES	6699	7083	7647	9060

CAPITAL AND RESERVES				
Reserves	74	102	132	175
Capital	200	200	200	200
TOTAL CAPITAL AND RESERVES	274	302	332	375
NET INCOME				
Last year	0	1	0	1
This year	59	60	43	13
TOTAL NET INCOME	59	61	43	14
TOTAL LIABILITIES, CAPITAL and NET INCOME	7032	7446	8022	9449
NET WORTH :	303	333	375	389

Source: BCR.

BANQUE COMMERCIALE DU RWANDA: INCOME STATEMENTS JANUARY 1-DECEMBER 31, 1982, 1983, 1984, 1985
(in millions of RWF)

	1982	1983	1984	1985
INCOME				
Interbank and treasury operations	68	71	98	129
Income from loans to clients	285	384	436	428
Short-term (excl.coffee)	175	222	262	224
Short-term (coffee)	53	67	71	77
Medium term	21	37	54	64
Long term	7	18	17	23
Commissions	29	40	32	40
Income from other bank operations	242	238	213	228
Income from investments	2	2	0	3
Adjustment in provisions for doubtful loans	0	0	5	0
Other Income	0	0	0	41
TOTAL INCOME	597	695	752	829
EXPENSES				
Interest paid and other charges	53	61	115	116
Salaries	224	236	302	297
Administrative costs	95	97	113	98
Taxes on fixed assets and deposit	2	4	2	2
Depreciation	25	27	28	31
Irrecoverable loans not covered by provisions	0	0	26	230
Provisions for bad debts	27	57	27	5
Contribution to Guarantee Fund	17	21	15	5
TOTAL EXPENSES	443	503	628	784
Pre-tax Net Income	154	192	124	45
Taxes on Profits	98	132	82	31
Net Income after Taxes	56	60	42	14

Source: BCR.

BANQUE DE KIGALI: BALANCE SHEETS DECEMBER 31 1982, 1983, 1984, 1985
(in millions of RWF)

	1982	1983	1984	1985
ASSETS				
CURRENT ASSETS				
Cash, BNR, CCP	261	217	164	577
Banks and other IFIs	743	497	872	675
Short term loans	2933	3158	2996	3792
Overdraft	38	85	28	301
Accounts receivable	910	851	1494	1094
Adjustments	28	39	55	95
TOTAL CURRENT ASSETS	4913	4847	5609	6534
MEDIUM/LONG TERM ASSETS				
Medium Term loans	190	98	91	108
Long Term loans	2	118	143	158
Government Bonds	397	547	947	914
Equity investments	55	65	85	85
Fixed Assets	300	304	328	379
TOTAL MEDIUM/LONG TERM ASSETS	944	1132	1594	1644
TOTAL ASSETS	5857	5979	7203	8178
LIABILITIES				
CURRENT LIABILITIES				
BNR	460	391	724	920
Banks and other IFIs	438	526	318	834
Deposits	3357	3479	3732	4680
Savings	2192	2099	2467	2287
Term	498	767	771	1897
Others under 1 year	667	613	494	496
Accounts Payable	910	850	1493	1094
Adjustments and Provisions	263	258	508	217
TOTAL CURRENT LIABILITIES	5428	5504	6775	7745
LONG-TERM LIABILITIES				
Special term deposits				
Savings bonds	20	20	0	0
TOTAL LONG-TERM LIABILITIES	20	20	0	0
TOTAL LIABILITIES	5448	5524	6775	7745
CAPITAL AND RESERVES				
Reserves	72	69	112	126
Capital	250	300	300	300
TOTAL CAPITAL AND RESERVES	322	369	412	426

NET INCOME				
Last year	2	2	1	3
This year	84	84	16	2
TOTAL NET INCOME	86	86	17	5
TOTAL LIABILITIES, CAPITAL and NET INCOME	5856	5979	7204	8176
NET WORTH :	367	412	429	431

Source: Banque de Kigali.

BANQUE DE KIGALI: INCOME STATEMENTS JANUARY 1-DECEMBER 31 1982, 1983, 1984, 1985
(in millions of RWF)

INCOME	1982	1983	1984	1985
Interbank and treasury operations	26	41	60	87
Income from loans to clients	280	304	333	357
Short-term (excl.coffee)	184	210	237	249
Short-term (coffee)	47	44	45	50
Medium term	21	25	11	10
Long term	0	0	14	17
Commissions	28	25	26	31
Income from other bank operations	259	237	246	242
Income from investments	2	0	2	3
Adjustment in provisions for doubtful loans	2	0	0	23
Other Income	10	12	12	7
TOTAL INCOME	579	594	653	719
EXPENSES				
Interest paid and other charges	61	79	92	145
Salaries	159	165	181	215
Administrative Costs	98	93	100	112
Taxes on fixed assets and deposit	1	1	1	2
Depreciation	14	19	20	31
Irrecoverable loans not covered by provisions	0	1	0	100
Provisions for bad debts	39	25	60	60
Contribution to Guarantee Fund	17	16	17	10
TOTAL EXPENSES	389	399	471	575
Pre-tax Net Income	190	195	182	44
Taxes on Profits	105	112	166	41
Net Income after Taxes	85	83	16	3

Source: Banque de Kigali.

BACAR: BALANCE SHEETS DECEMBER 31, 1984, 1985
(in millions of RWF)

	1984	1985
ASSETS		
CURRENT ASSETS		
Cash, BNR, CCP	394	306
Banks and other IFIs	510	625
Short term loans	531	847
Overdrafts	291	326
Accounts receivable	278	131
Adjustments	57	22
TOTAL CURRENT ASSETS	2061	2257
MEDIUM/LONG TERM ASSETS		
Medium Term loans	205	685
Long Term loans	37	68
Government Bonds	300	300
Equity investments	0	0
Fixed Assets	153	157
TOTAL MEDIUM/LONG TERM ASSETS	695	1210
TOTAL ASSETS	2756	3467
LIABILITIES		
CURRENT LIABILITIES		
BNR	27	194
Banks and other IFIs	664	945
Deposits		
Savings	541	526
Term	716	1070
Others under 1 year	246	292
Accounts Payable	273	131
Adjustments and Provisions	89	101
TOTAL CURRENT LIABILITIES	2556	3259
LONG-TERM LIABILITIES		
Special term deposits	0	0
Savings bonds	0	0
TOTAL LONG-TERM LIABILITIES	0	0
TOTAL LIABILITIES	2556	3259
CAPITAL AND RESERVES		
Reserves	0	1
Capital	200	200
TOTAL CAPITAL AND RESERVES	200	201

NET INCOME		
Last year	0	1
This year	1	8
TOTAL NET INCOME	1	9
TOTAL LIABILITIES, CAPITAL and NET INCOME	2757	3469
NET WORTH :	201	210

Source: BACAR.

BACAR: INCOME STATEMENTS JANUARY 1-DECEMBER 31, 1984, 1985
(in billions of RWF)

	1984	1985
INCOME		
Interbank and treasury operations	32	36
Income from loans to clients	104	202
Short-term (excl.coffee)	74	148
Short-term (coffee)	8	10
Medium term	2	29
Long term	10	2
Commissions	10	13
Income from other bank operations	59	66
Income from investments	0	0
Adjustment in provisions for doubtful loans	0	0
Other Income	0	0
TOTAL INCOME	195	304
EXPENSES		
Interest paid and other charges	58	115
Salaries	64	50
Administrative costs	54	50
Taxes on fixed assets and deposits	1	1
Depreciation	12	14
Irrecoverable loans not covered by provisions	0	0
Provisions for bad debts	1	26
Contribution to Guarantee Fund	1	5
TOTAL EXPENSES	191	261
Pre-tax Net Income	5	45
Taxes on Profits	4	37
Net Income after Taxes	1	8

Source: BACAR.

CAISSE D'EPARGNE
BALANCE SHEET
DECEMBER 31, 1984 AND 1985
(in millions of RWF)

ASSETS

	1984	1985
Current		
Cash, BNR, CCP		
Banks	186.10	105.50
- sight	4.60	3.90
- term	335.00	575.00
Branches		
- CE branches	18.00	16.60
- Post offices	106.90	126.50
Loan Portfolio		
- Short-term	349.00	243.80
- Medium-term	86.60	88.10
- Long-term	170.00	141.10
Overdraft	0.80	0.80
Delinquent Loans	228.90	124.10
Doubtful Loans	383.40	446.90
Accounts Receivable	340.70	350.70
Other Doubtful Loans	42.50	42.00
Accounts Paid in Advance	10.50	18.00
Diverse Debtors	7.30	-
TOTAL	1,619.70	1,460.30
Fixed Assets		
Equity Investments	40.30	40.30
Buildings	154.90	150.70
Other Fixed Assets	47.70	63.50
Establishment Costs	8.60	7.40
TOTAL	251.50	261.90
Results from Income Statement		
Reported Losses	546.30	561.50
Losses from Current Period	15.20	199.40
TOTAL	561.50	760.90
TOTAL ASSETS	3,083.30	3,310.60

LIABILITIES

	1984	1985
Current		
BNR	320.70	205.00
Banks		
- sight	7.20	4.40
- term	34.80	27.80
Client Deposits		
Ordinary Deposits	247.50	283.20
- term	225.90	277.10
- passbook	1,208.90	1,349.70
Other	5.30	5.40
Accounts Payable	38.60	34.60
Diverse Creditors		
- Priviledged	9.60	9.20
- Other	28.30	22.30
Provisions		
- for losses	314.60	387.00
- Depreciation	425.90	488.90
TOTAL	2,867.30	3,094.60
Equity		
Capital	162.00	162.00
Reevaluation	53.80	53.80
Reserves	0.20	0.20
TOTAL	216.00	216.00
TOTAL LIABILITIES AND EQUITY	3,083.30	3,310.60

Source: Caisse d'Epargne.

CAISSE D'EPARGNE
INCOME STATEMENTS
JANUARY 1-DECEMBER 31, 1984 AND 1985

	1984	1985
Revenue from Banking Operations	193.20	173.20
Financial Expenses As a Result of Banking Operations	68.30	77.40
Margin	124.90	95.80
Other Revenue	6.20	5.10
Margin	131.10	100.90
Personnel Costs	54.30	68.70
Taxes	16.90	19.30
General Expenses	26.20	33.50
Margin	33.70	- 20.60
Provisions for Doubtful Loans	52.80	196.90
Depreciation	25.70	27.70
Extraordinary Income	32.10	43.00
Reevaluation of Fixed Assets	-	1.60
Exceptional Expenses	- 0.50	- 0.80
Income/Expenses from Prior Periods	- 1.90	+ 2.00
NET INCOME	- 15.20	- 199.40

Source: Caisse d'Epargne

91 TABLE

CAISSE HYPOTHECAIRE DU RWANDA

Balance Sheet - in RFW (000)

		31.12.1985	31.05.1986
FIXED ASSETS, NET			
Rental Houses		7,067	6,822
Land		5,000	5,000
Office Building		33,953	32,477
Houses for Staff		2,599	2,515
Transport Equipment		3,657	3,070
Other Equipment & Furniture		7,694	8,027
TOTAL - FIXED ASSETS, NET		59,970	57,911
SHARES IN OTHER COMPANIES		6,000	8,500
LOANS			
Subsidised loans	- long term	12,170	71,990*
	- short term	26,480*	76,950*
Regular loans	- short term	1,911*	5,035*
Loans to staff		3,009	7,965
TOTAL - LOANS		43,570	161,940
STOCK OF HOUSES FOR SALE		143,112	31,415
CURRENT ASSETS, NET			
Doubtful debtors, net		1,692	1,692
Other debtors		7,773	6,493
Other creditors		(2,687)	(2,614)
Deposits received on houses		(5,499)	-
Banks		62,499	49,130
TOTAL CURRENT ASSETS, NET		63,778	54,701
TOTAL ASSETS		316,430	314,467
Capital		237,500	237,500
less: Accumulated losses		(88,379)	(90,342)
Net capital		149,121	147,158
LONG-TERM LOAN		158,086	158,086
Provisions for losses		9,223	9,223
		316,430	314,467

* all loans include overdue instalments.
At 31.05.1986 overdue instalments of principal and interest totaled approximately 1.7 million.

Source: Coopers & Lybrand Associates: Caisse Hypothecaire du Rwanda; Study of the Rwandian Housing Loan Corporation, August 1986.

TABLE

CAISSE HYPOTHECAIRE DU RWANDA

Profit and Loss Account - in RWF (000)

	1983	1984	1985	Total of 3 years	Mid-1986 running rate*
Revenus Courants					
Interest, rent and other current revenues	6,165	14,014	18,595	38,774	20,000
less: Interest expense		(1,548)	(4,814)	(6,362)	(5,000)
CURRENT EXPENSES	6,165	12,466	13,781	32,412	15,000
Current Expenses					
Salaries and related expenses, including staff liaising	(8,274)	(16,606)	(20,946)	(45,826)	(19,000)
Vehicle expenses	(2,513)	(4,699)	(3,980)	(11,192)	(4,000)
Other expenses	(4,439)	(7,104)	(3,557)	(15,100)	(8,000)
Depreciation, other than buildings	(1,634)	(2,970)	(3,472)	(8,076)	(3,500)
TOTAL CURRENT EXPENSES	(16,860)	(31,379)	(31,955)	(80,194)	(34,500)
Profits, costs, and other charges					
Construction costs	(10,330)	(1,391)	-	(11,721)	
Profit on sale of houses	-	-	10,778	10,778	
Business licence tax (patente)	(2,321)	(2,300)	(5,147)	(9,768)	(4,500)
Other taxes	(1,880)	(719)	(386)	(2,985)	
Provision for bad debts	(2,273)	108	(231)	(2,396)	
Other provisions	-	-	(3,750)	(3,750)	
Loss on sale of fixed assets	(305)	(184)	(1,419)	(1,908)	
Amortisation of buildings and rental houses	(760)	(789)	(2,266)	(3,815)	(2,000)
Amortisation of start-up expenses	-	(1,850)	(1,850)	-	
PROFITS, COSTS, AND OTHER CHARGES (NET)	(17,869)	(5,275)	(4,271)	(27,415)	(6,500)
Net loss	(28,564)	(24,188)	(22,445)	(75,197)	(26,000)

* These figures are estimates of the current annual costs and revenues based on the actual results for the first 5 months of 1986 but excluding non recurring items.

Source: Coopers & Lybrand Associates: Caisse Hypothecaire du Rwanda; Study of the Rwandan Housing Loan Corporation, August 1986.

BANQUES POPULAIRES DU RWANDA: BALANCE SHEETS DECEMBER 31 1982, 1983 1984, 1985
(in millions of RWF)

	1982	1983	1984	1985
ASSETS				
CURRENT ASSETS				
Cash	45	61	62	69
Sight deposits	44	73	127	58
Term Deposits (under 1 year)	270	340	310	485
Short term loans	235	261	342	396
Debtors	28	48	100	97
Accounts receivable	30	34	23	25
Cash deficits	12	18	26	7
TOTAL CURRENT ASSETS	664	835	990	1137
MEDIUM/LONG TERM ASSETS				
Medium Term loans	139	169	224	334
Long Term loans	20	16	32	72
Government Bonds	125	200	240	240
Fixed Assets	13	26	46	139
TOTAL MEDIUM/LONG TERM ASSETS	302	411	542	785
TOTAL ASSETS	966	1246	1532	1922
LIABILITIES				
CURRENT LIABILITIES				
Deposits	808	1029	1247	1617
Accounts Payable	19	17	3	4
Head Office-Branches	0	0	12	0
Provisions for bad debts	9	13	25	51
Provisions for regional federations	0	0	0	2
TOTAL CURRENT LIABILITIES	836	1059	1287	1674
TOTAL LIABILITIES	836	1059	1287	1674
EQUITY				
Gifts	2	2	3	4
Guarantee Fund	13	19	25	14
Maintenance Fund	18	24	30	31
Reserves	83	123	162	169
Capital	13	17	23	31
TOTAL EQUITY	129	185	243	249
TOTAL LIABILITIES & EQUITY	965	1244	1530	1923

Source: Banques Populaires.

BANQUES POPULAIRES: INCOME STATEMENTS JANUARY 1-DECEMBER 31 1982, 1983 1984, 1985
(in millions of RWF)

INCOME				
Interest received on deposits	22	34	36	43
Income from loans to clients				
Interest on loans	36	52	63	82
Commissions	2	3	4	4
Income from other bank operations	1	1	2	4
Adjustment in provisions for doubtful loans	2	1	1	1
TOTAL INCOME	63	91	106	134
EXPENSES				
Interest on deposits	18	21	28	34
Interest on member shares	0	1	1	1
Salaries	29	34	41	49
Administrative costs	27	31	38	35
Depreciation	2	2	3	4
Provisions for bad debts	4	5	13	17
TOTAL EXPENSES	80	94	124	140
NET LOSS	-17	-3	-18	-6
Swiss grant	51	55	67	38
NET INCOME	34	52	49	32

Source: Banques Populaires.

BANQUE RWANDAISE DE DEVELOPPEMENT: BALANCE SHEETS DECEMBER 31 1982
1983, 1984, 1985
(in millions of RWF)

	1982	1983	1984	1985
ASSETS				
CURRENT ASSETS				
Cash, Caisse d'Epargne	20	11	14	2
Banks and other IFIs	167	385	169	259
Short term loans to staff	14	15	14	17
Diverse debtors	77	131	78	86
Accounts receivable	0	4	0	23
Adjustments	25	58	42	57
Shares to be sold	108	79	0	0
TOTAL CURRENT ASSETS	411	683	317	444
MEDIUM/LONG TERM ASSETS				
Medium term loans	54	43	35	22
Long term loans	1366	1694	1577	1694
Doubtful loans	25	25	260	196
Loans under litigation	8	2	15	12
Unrecoverable loans	0	0	0	0
Government bonds				
Equity investments	213	339	335	598
Administrative building	86	192	347	427
Staff housing	31	29	79	84
Other fixed assets	10	7	12	14
TOTAL MEDIUM/LONG TERM ASSETS	1793	2331	2660	3047
TOTAL ASSETS	2204	3014	2977	3491
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable, deposits, other	68	132	155	174
Adjustments and Provisions	6	19	22	113
Shares to be sold	8	4	4	6
TOTAL CURRENT LIABILITIES	82	155	181	293
MEDIUM & LONG-TERM LIABILITIES				
BNR	356	601	532	599
GOR, Arab League Fund	93	93	93	87
KFW	142	154	223	239
AID	280	526	462	489
KFW Investment Fund	14	4	8	20
Special Investment Fund	7	13	13	13
Provisions for general risk	50	61	65	70
TOTAL LONG-TERM LIABILITIES	942	1452	1396	1517
TOTAL LIABILITIES	1024	1607	1577	1810

EQUITY				
Reserves	109	199	244	540
Retained earnings	73	87	36	23
Capital	1000	1120	1120	1120
TOTAL EQUITY	1182	1406	1400	1683
TOTAL LIABILITIES & EQUITY	2206	3013	2977	3493

Source: BRD.

BANQUE RWANDAISE DE DEVELOPPEMENT: INCOME STATEMENTS JANUARY 1-DECEMBER 31 1982, 1983, 1984, 1985
(in millions of RWF)

	1982	1983	1984	1985
INCOME				
Interest from term deposits	3	2	8	7
Income from loans to clients	158	187	224	243
Normal interest	109	128	159	175
Differential interest	17	19	22	23
Delinquency interest charge	2	3	4	5
Interest from loans to staff				
Special interest	24	31	33	33
Commissions	6	6	6	7
Income from investments	21	21	21	52
Other income				5
TOTAL INCOME	182	210	253	307
EXPENSES				
Financial charges	35	45	63	71
Salaries	37	42	46	58
Administrative costs	22	21	23	21
Depreciation	9	9	10	19
Provisions for bad debts	35	41	107	127
TOTAL EXPENSES	138	158	249	296
NET INCOME	44	52	4	11

Source: BRD.