

REPUBLIC OF RWANDA



LOCAL ADMINISTRATIVE ENTITIES DEVELOPMENT AGENCY (LODA)
IKIGO GISHINZWE GUTEZA IMBERE IBIKORWA BY'ITERAMBERE MU NZEGO Z'IBANZE

AGENCE DE DEVELOPPEMENT DES ENTITES ADMINISTRATIVES LOCALES
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**INSTRUCTIONS OF LODA ESTABLISHING GUIDELINES FOR LOAN VUP-
FINANCIAL SERVICES MANAGED ON PARTNERSHIP WITH UMURENGE SACCO**

The Board of Directors,

Pursuant to the Law n°62/2013 of 27/08/2013 establishing the Local Administrative Entities Development Agency (LODA) and determining its mission and functioning.

Pursuant to the Cabinet decision dated 29 July 2014 regarding the implementation of VUP Financial Services in partnership with Umurenge SACCO.

Pursuant to the assessment that was carried out on how credits are granted across all VUP Sectors, in some Umurenge SACCOs and after collecting the views and wishes from the loan beneficiaries and Umurenge SACCO clients.

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Pursuant to the fact that VUP aims at reducing extreme poverty within the framework of “Economic Development Poverty Reduction Strategy (EDPRS)” and noting that SACCOs at Umurenge level can play a significant role in savings mobilization, promotion of investment, economic growth and poverty alleviation.

Considering the three VUP components including; Public Works, Direct Support, and Financial Services.

Given that banks and financial institutions are reluctant to grant loan to poor individuals in the bottom two of Ubudehe categories and the third category with extremely poor individuals.

Bearing in mind the national guiding principles of good governance, sustainable development, transparency and accountability.

After considering the necessity to issue the guidelines to implement the loan /financial services managed on partnership with Umurenge SACCO

The Board of Directors of LODA issues the following guidelines;

Article One: Definition of Terms

In this Guidelines:

“**Umurenge Saving and Credit Cooperative**” means a Cooperative, licensed by the National Bank of Rwanda for the purpose of accepting deposit from its members in order to make them increase in value, providing loans and other



services and financial services in accordance with the law establishing the organization of Micro-Finance activities.

“Cooperative” means an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspiration through a jointly –owned and democratically controlled enterprise according to internationally recognized cooperative values and principles; this entity shall be fully recognized by the Rwanda Cooperative Agency (RCA)

“Financial Services component” means the component of VUP which provides support through loans for eligible beneficiaries to develop sustainable livelihoods;

“Direct support (DS)” means the component of VUP that aims at improving access to social services or to provide for landless households with no members qualifying for public works or credit packages, such unconditional support seeks to expand health and education coverage as well as to encourage the development of “appropriate” skills handicraft or social service activities

“Public works (PW)” means the component of VUP that uses community based participatory approaches to build community assets and create off-farm employment infrastructure

“Group” means a group of eligible beneficiaries who have agreed to work together to establish a micro business for their common benefit it shall be well established and fully known at the sector level.

“Guidelines” means the Financial Services Guidelines issued and updated from time to time by LODA under this Memorandum of Understanding which provides guidance as to how this partnership should be implemented;

“Project proposal” means a document determining the nature of the Business following the Guidelines of this Financial Services



“Loan application” means a document/application containing all information prescribed in the Guidelines;

“Loan contract” means the legally binding agreement between the Umurenge SACCO and the loan recipients under which the loan is advanced;

“Sector Loan Committee” means the Committee constituted under the Financial Services Guidelines which receives loan applications from eligible beneficiaries, reviews them and approves or rejects them;

“SACCO Loan Committee” means the Committee constituted by the SACCO under its rules to receive and assess loan applications, which will also consider applications for loans under the Financial Services component of VUP;

“Loan recipient” means an individual, a group or a cooperative eligible to apply for a loan and whose loan application has been approved and to whom monies have been disbursed;

“Revolving Fund” means the monies accumulated in a dedicated account in the Umurenge SACCO for the purposes of advancing loans to achieve the objectives of the Financial Services component, from which loans will be made and into which funds will be transferred by the District and repayments of loan principal will be accumulated by the SACCO;

“Eligible beneficiaries” means people, acting as individuals, in groups or in cooperatives, eligible according to the guidelines for the Financial Services component of VUP prepared and updated from time to time by LODA, to apply and receive loans from the Revolving Fund;

“Ubudehe Committee” means the executive committee set at the village level to implement the strategy of creating spaces for citizen participation in Self – Governance, Poverty Analysis



Local Problem solving' Planning process at Community level, in this guidelines this committee will be collecting project proposals/ applications for the loan based on the integrity of the loan applicants and feasibility of the projects.

“Ubudehe Categories” means a wealth ranking or categorization aligned to local based poverty profile; today this ranking includes Those living in abject poverty, Very poor,. Poor, Resourceful poor, Food rich and money rich persons

“VUP” means the Government of Rwanda’s Vision 2020 Umurenge Programmed operated by the Local Administrative Entities Development Agency (LODA);

Article 2: Implementation of the Credit scheme

The credit scheme under VUP-Financial services shall be implemented in partnership with Umurenge SACCO to reduce poverty and shall finance the income generating activities (IGA).

Article 2: Collection and process of loan applications

UBUDEHE Committee at village level shall collect the projects application for the loan basing on the integrity of loan applicants and feasibility of the project. The Cell Executive Secretary submits the above projects to the Sector loan committee chaired by the Sector Executive Secretary for loan analysis and recommendations before its submission to Umurenge SACCO for further process.

Article 3: Composition of the Sector Loan Committee

The loan committee at Sector level comprises of the Sector Executive Secretary, staff having Social Affairs in his/her responsibilities, Sector staff having VUP



activities in his/her responsibilities, a Representative of the Private Sector at sector level, the Sector staff in charge of promotion of cooperatives, civil society representative and the Cell Executive Secretary when analyzing the projects from the applicants of his/her Cell.

Article 4: Chairmanship of the Sector Loan Committee

The loan committee is chaired by the Sector Executive Secretary, s/he is deputed by the Sector Officer in Charge of Social protection , the Secretary being Sector staff having VUP activities in his/her responsibilities.

Article 5: Meeting of the Sector Loan Committee

The Sector loan committee will meet on quarterly basis and whenever deemed necessary to review the loan applications and submit to Umurenge SACCO a list of loan applications approved within a period not exceeding five working days after the approval date.

Article 6: The Quorum

For the meeting to convene and deliberate, 2/3 of the Sector loan committee members shall constitute the quorum.

Article 7: Resourceful person

The loan committee can make recourse to any other expert when deemed necessary.

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Article 8: The Interest rate

The interest rate per year on the Financial Services loan managed in partnership with Umurenge SACCOs shall be at 11%;

The Umurenge SACCO will take the interest in payment for:

- Administration cost;
- Loan defaults;
- Profit;

The interest should be constant and compounded annually;

Article 9: Repayment period

The repayment period shall be determined by SACCO loan committee basing on the nature, profitability and payback period of the project. Nonetheless, the repayment period for these income generating activities shall not exceed 24 months.

Article 10: Late payment penalty

If payment of an installment is late a penalty of 5% of the value of the installment may be applied by the Umurenge SACCO.

The payment of the installment is deemed to be late if it has not been received by the Umurenge SACCO at midnight on the date the installment is due, per the loan contract;

The value of such penalties will accrue to the SACCO.



Article 11: Categories eligible to loan

The following categories are eligible to loan¹:

- Beneficiaries from Public Works and Direct Support;
- Non beneficiaries of Direct Support and Public Works in the bottom 1 and 2 of Ubudehe categories;
- Individuals in the third (3rd) bottom category of Ubudehe who are likely to protect them from the danger of falling back to category 1 and 2.

Article 12: Loan application and the ceiling amount

Individuals, eligible Groups and eligible Co-operatives may submit an application for a loan.

The amount of the loan applied for should be appropriate for the project being proposed and cannot exceed the following ceiling:

- i. Individual loan : Rwf: 100,000;
- ii. Group loan composed by 7 to 10 persons: Rwf 1,500,000;
- iii. From 7 up to 15 group members: Rwf 2,000,000
- iv. For a group where 70% of the group members are women or youths; Rwf 2,500,000 (11-15 persons) and Rwf 2,000,000 (7-10 persons)
- v. Cooperative loan composed of less than 30 persons: Rwf 4,000,000
- vi. Cooperative loan composed of more than 30 persons: Rwf 5,000,000

¹ These categories shall be adjusted to new Ubudehe categorization as per criteria characterizing each category.

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Article 13: Composition of the group

The group shall not have less than 7 persons and not more than 15 persons, the *eligible* members as earlier stipulated in article 11 should not be below 70% of the group members.

Article 14: Prerequisite conditions for the group

The following documents and conditions are required to confirm that the group members are working together:

- Having a group active bank account statement for a period of 3 consecutive months;
 - Minutes of the meeting in relation to the group project;
 - List of group members accompanied by their ID numbers and signatures.
 - Minute of the constitutive meeting of the group and its leaders
 - Members of the group constitute a joint surety

Article 15: Prerequisite condition for the Cooperative

The following documents and conditions are required for a cooperative applying for Loan:

- The minute of the meeting with regards to loan application;
- The list of cooperative members, identifications and their respective signatures ;
- At least 50% of cooperative members should be in one of the categories referred to in article 11 of these guidelines.



Article 16: Disbursement of the loan fund

The loan fund can be disbursed into installments depending on the feasibility of the income generating activities and its implementation.

The Umurenge SACCO loan committee can approve a loan below the target loan fund depending on the value or cost of the income generating project or activity.

Article 17: The credit award

Credit award shall not be based on households but on individuals.

Article 18: Group membership

An individual cannot be a member of more than one group.

Article 19: Majority of age for eligible beneficiary

An individual loan applicant or a group and cooperative member shall at least be of 18 years old.

Article 20: Feedback from Umurenge SACCO Loan Committee

In a period not exceeding ten working days, Umurenge SACCO loan committee should provide a feedback to Sector loan committee and District on loan applications received.



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Article 21: Loan Contract

The loan contract is signed between the loan beneficiary and Umurenge SACCO.

Article 22: The Loan beneficiary account

The loan beneficiary should have Umurenge SACCO account in which to deposit the loan.

Article 23: Loan disbursement period

Loan disbursement may not exceed a period of three working days after signing the loan contract.

Article 24: Grace period

SACCO loan committee shall determine the Grace period for loan repayment depending on the feasibility/nature of the Project.

Article 25: Responsibility to recover loan

Umurenge SACCO is responsible for recovering all loans granted to the VUP-Financial services beneficiaries.

Article 26: Loan recovery

Principal of loans recovered are affected on a specific Umurenge SACCO Account to enable the revolving of the loan to other applicants; once Umurenge SACCO has Rwf 1000,000 it can proceed for other loan disbursement.

The loan interests are the benefit of Umurenge SACCO



Article 27: Monitoring of Loan management

After each three months, members of Umurenge SACCO and Sector loan committee shall meet to examine the process of loan disbursement, repayment and other issues deemed necessary.

Article 28: Asset of the District

The loan disbursed under VUP Financial Services in partnership with Umurenge SACCO is an asset of the District and can only be used within that particular VUP sector.

Article 29: Prohibition

Political leaders and public servants, directly involved in the implementation of this component are not among the beneficiaries of the VUP Financial services component

Article 30: Application for non-objection from LODA

Other provisions not stipulated by these guidelines shall require application for non-objection from LODA.

Article 31: Abrogation of provisions contrary to these Guidelines

Other provisions contrary to these Guidelines are abrogated.

Done at Kigali on: 16/03/2015

Mr. Jonathan NZAYIKORERA
Chairperson of Board of Directors
LODA

