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Exploring how Microfinance Institutions Can Enable Access to Financial Services in Rural Areas of Rwanda.

- Case study of Réseau Interdiocésain de Microfinance

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Exploring How Microfinance Institutions Can Enable Access to Financial Services in Rural Areas of Rwanda. A case study of Réseau Interdiocésain de Microfinance

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Abstract

Most of rural based population in developing countries are poor and uneducated. Due to these conditions, rural communities do not attract traditional financial institutions. In response to the issue of financial exclusion, the existence of microfinance institutions has been embraced as a solution to avail financial services to rural communities. However, the solution presented by microfinance institutions has been debated and criticised by the scientific community for not fully respond to its potential and aspirations.

In this regard, this study contributes to better understand of how microfinance institutions build financial relationships with rural communities to enable them access financial services. A marketing perspective was applied to investigate how a microfinance institution engage with rural communities to build profitable financial relations with these. This study was undertaken using case study research methods. It focuses on Réseau Interdiocésain de Microfinance as the company case and four semi structured interviews were conducted to get both the perspectives of Réseau Interdiocésain de Microfinance and rural communities. To identify and explain how relationships are built in this context, the bottom of the pyramid concept and social capital theory informed a theoretical framework. This framework guided data collection and analysis in this study.

The analysis shows that microfinance institutions build financial relationships with rural communities by approaching sites where people gather in rural areas and where situations for building relationships can be favourable. The sites identified in this study include the church and cleaning works known as ‘umuganda’. These sites create situations where critical aspects for building relationships can be found. These aspects include trust, social norms and social networks that exists within the rural communities. This study concludes that Microfinance institutions can build financial relationships with rural communities by approaching sites where situations are favourable for building such relationships. This study therefore suggests that to enable access to financial services in rural communities, microfinance instutions have to identify and engage in sites where they can reach into rural communities and build relationship with them.

Abbreviations

BOP: Bottom of the Pyramid
FAO: Food and Agriculture Organization of the United States
MFIs: Microfinance Institutions
RIM: Réseau Interdiocésain de Microfinance
SCT: Social Capital Theory

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1 Introduction

The first chapter of this study presents the problem background where financial exclusion, microfinance institutions, microcredit are briefielly explained. It includes the problem statement of the study and further the aim, the research questions and the unit of analysis and delimations of the study are presented. Lastly, the chapter concludes with a structure of the report.

1.1 Problem background

People in rural communities of developing countries struggle to access financial services because they are poor and uneducated (Meyer, 2013). Lopez & Winkler (2018) qualify rural communities of being financially excluded, due to the unavailability of financial services to them. Rural communities do not have information about financial institutions because they are out of the target of traditional banks, which target highly populated areas in urban cities.

The African Development Bank (2013) revealed that only 20% of the total population living in rural area in Africa have access to financial services such as savings deposits and credit. The lack of access to financial services translates into negative consequences for rural based communities. For the example, the abscence of credit access is a major hinder to food security in developing countries as rural communities' income and food security depend on agriculture (Miller, 2011). Consequently, the lack of access to credit discourages people to invest in new practices and technologies to increase production and sustain themselves. This limitation constrained them from building business capacity and improving their social well being.

According to the Food and Agriculture Organizations of the United Nations (2011), it has been a longtime situation in developing countries, for people involved in agriculture to lack financial resources to invest in the new technologies of irrigation or to purchase improved agricultural inputs (FAO, 2011). Modern agriculture relies on the use of good seeds which are resistant to diseases and weather changes, fertilizers to boost yield, pesticides in case of diseases to protect the plants and irrigation systems to overcome the problem of climate changes which cause drought and affect production (Bauer *et al.*, 2015; Mańkowski *et al.*, 2015). As claimed by Tiffen (2003), agriculture being the main source of food and income for the rural population in Sub-Sahara Africa, agriculture should be modernised to satisfy the increasing demand of food. Because according to the United Nations (2018), the population in developing countries is increasing and one of the development millennium goals is to eradicate extreme poverty and hunger.

As stated by Federal et al (1990), traditional financial models are guaranty and cash flow based. The traditional financial models require a guaranty to access credit and one can argue that traditional financial models do not target rural communities. Rural communities do not present valuables assets, they are endowed with small lands, which means their revenues are small and to process small loans implies high operations costs and negligible revenues for financial institutions (Federal et al, 1990).

Many countries have adopted financial inclusion programs to boost economic growth, to eradicate poverty and combat hunger problems. And the adoption of microfinance institutions

(**MFI**s) schemes was one of them. MFIs are being politically seen as an appropriate approach to reach the rural areas and help the rural areas population to access financial services.

According to Hermes et al (2009), microfinance institutions present a new financial model which is based on the social capital structure of the community. Thus, business model does not require a guaranty for rural communities to access financial services like loans. The value proposition is around the situations of trust, social norms and social networks present in the rural communities. Thus, MFIs business model aims at reducing poverty through the provisions of small loans known as microcredit and support the set-up income generating businesses (Hermes et all, 2009).

As many African countries, the government of Rwanda through its Ministry of Finance and Economic Planning collaborate with its stakeholders to support rural areas to access financial services. Among the stakeholders, there is the association of microfinance institutions in Rwanda which aims at financial education. There are governmental agencies like the Rwanda Development Board which helps the smooth establishment of new business ventures in the country. There is the Business Development Fund which provides credit guarantees to encourage MFIS to serve the poor. Lastly, there is a Non-profit organization like Access to Finance Rwanda which gets funds from the development agencies to support financial institutions to avail financial services to low income and rural areas-based population. (Microfinanza rating, 2015). One of the initiatives was the establishment of microfinance institutions with the main purpose of serving the rural areas and boosts the access to financial services for all (Microfinanza, 2015). Nevertheless, even after the establishment of MFIs in Rwanda, on 84% of the population living in rural areas, only 36% can access financial services (National Bank of Rwanda, 2016).

1.2 Problem statement

MFIs have adapted their business models to the financial conditions of rural areas commonly known as Bottom of Pyramid (**BOP**). The BOP segment englobes a less attracting and invisible market which is easily neglected when it comes to access a service, product or a new technology (Prahalad, 2004). Hermes et al (2009) argued that MFIs provide financial services with affordable interest rates, low operations costs and these should not have been possible without the introduction of banking technology like the use of mobiles phones and internet to attain the outreach. And most importantly beyond the provision of credit, there has been the introduction of financial services like savings accounts and insurances which were never accessed by the people of BOP because of their poor living conditions (Hermes et al, 2009).

Buckley (1997) viewed the access to credit as an economic mechanism to enable rural areas based population to financially sustain themselves and the microfinance institutions like Grameen Bank in Bangladesh and Banco Sol of Bolivia have shown that it was possible to lend money to rural population without guaranty using labels of social capital and achieve higher recovery rates compared to what has been achieved by traditional banks in the past (Buckley, 1997).

It has been claimed by Singh (2010) that for rural based communities to embrace modern agriculture and be able to attain food security and sustain themselves, they need to access capital to invest in agriculture. According to Maitra *et al.* (2017), farmers in rural areas are in need of small loans either to buy certified seeds or fertilizers and ensure their yields; e.g.

someone looking for a loan of less than 50 USD. However, it has been challenging for traditional financial services model to find a way of administrating those small loans and still be a profitable.

According to Mukamana *et al.* (2016) rural areas conditions in Rwanda do not differ to the conditions of developing countries elsewhere in Africa, where the communities are poor and depending on agriculture. More specifically, it is the most highly populated density and among the smallest countries of 26.633 km2 (National Institute of Statistics, 2015). The approximate land size for a smallholder farmer is around a half of a hectare (National Institute of Statistics, 2015). From there, it can be argued that microcredits fit rural based population in possession of small lands. And that solution can be possible if there is engagement between MFI and rural communities.

Although Considerable research from economics and social fields has been done on the work of MFIS for poverty reduction and empowerment of whole nations or marginalized groups of people in developing countries, there are some critics on MFIS. Bateman & Chang (2012) questioned the trust and credits accorded to microfinance. They pointed out that from an economic point of view, the microloans loans were not helping the poor but entrapping the poor in circle of poverty due the contracted loan. MFIs have been linked with moral issues; i.e. exploiting the poor by charging high interest rates and unethical recovery techniques to get back the lent money which have consequences of keeping the poor in a cycle of debts (Hudon & Sandberg, 2013). MFIs'value proposition have been criticized for increasing income inequalities in the community as MFIs intend to benefit the ones with a certain level of education and most powerful in the community who tend to control the solidarity or lending groups (ibid).

Based on the publication of World Bank Group (2014), there still exists a significant number of people, around 2.5 billion, who are unnecessary financially excluded. The financial exclusion can be interpreted as a lack of customer relation between a financial institution and people. And the existence of microfinances as a solution for financial inclusion does not fully resolve the issue of financial exclusion, thus, the solution can improve (Weber & Ahmad, 2014; Miled & Ben Rejeb, 2015). Consequently, this is the empirical problem underpinning this study.

Fewer studies have explored the phenomena of MFI from a marketing perspective, in terms of how relationships are built between MFI and poor rural communities to create financially viable business. Therefore, this study focuses on better understanding of the phenomena of microfinance as a solution to reach the financial inclusion for poor rural communities from a marketing perspective

Marketing can simply be defined as the process of building profitable customer relations to capture value in return from customers (Kotler, 2016). Kotler (2016) further explains that the goal of marketing is to attract customers by promising higher value and maintain the existing customers through satisfactory services. This marketing approach raises several questions for markets on the bottom of the pyramid: What does it mean to have a customer relationship? But, then, how do you develop a value proposition and build profitable relations with people that are poor? And how do you achieve the marketing goal for people who have not been in the position of accessing the service you are selling? From this approach, it can be interesting to explore how customer relations are built between MFI and rural communities in the context of Rwanda.

In this study customer relations are referred as financial relationships and these relations need place to happen into for the first contact. From the 4Ps of the marketing mix (van Waterschoot & van den Bulte, 1992), place where the business transaction happens is important to create the customer relation. For this study, the place which unable the financial relationships to happen are referred as sites. Therefore, this case study focuses on how financial relationships are built from the context of the company case which is Réseau Interdiocésain de Microfinance **(RIM**) operating in rural areas of Rwanda.

1.3 Aim and delimitations

The aim of the study is to identify and explain how Microfinance institutions build financial relationships with rural communities to enable them access to financial services.
The study focuses on the case of Rwanda as the operating territory of Réseau Interdiocésain de Microfinance (RIM Ltd), one of the biggest microfinance institution operating in rural areas (National, Bank of Rwanda, 2017).

Research Questions

1. What are the characteristics of the market for financial services in the rural areas of Rwanda?
2. What is the value proposition developed by Microfinance instutitions to build financial relationships with customers in poor rural communities?

3. What are the sites and situations where financial relationships are built between microfinance instutitions and poor rural communities?

1.4 Unit of analysis and delimitations

The phenomena of interest for this study is microfinance institution in the context of Rwanda. The study is carried out as a case study on sites and situations where financial relationships are built with rural communities. Thus the study focuses on one single microfinance institution. The case of the study is Réseau Interdiocésain de Microfinance. This thesis is delimitated to explore financial services access by rural communities.

RIM was created by the catholic church of Rwanda and Caritas in 2004 to offer financial services to rural communities. In 2014, an agricultural lending unit was created to specifically deal with farmers customers (RIM, 2018). Thus, it is an interesting case to study as the aim activity in rural areas is farming. The empirical data collection is delimitated mainly to four interviews with two employees and two customers of RIM and little information from the webpage of RIM.

1.5 Structure of the report

The study is structured as shown in Figure 1. The introduction, which offers the reader a brief overview, is followed by the Literature Review and Theoretical Framework. Afterwards, the method provides the reader with information about how the case study research was undertaken. In chapter four, the findings from the case study research are presented. The chapter is divided into two; the introduction of the case company and the empirical results collected from the interviews are presented. The chapter five follows with the analysis and discussions of the findings of the case study. Finally, the chapter six presents the conclusions of the study. This chapter also addresses the research questions, the aim of the study and provides the thesis contributions.

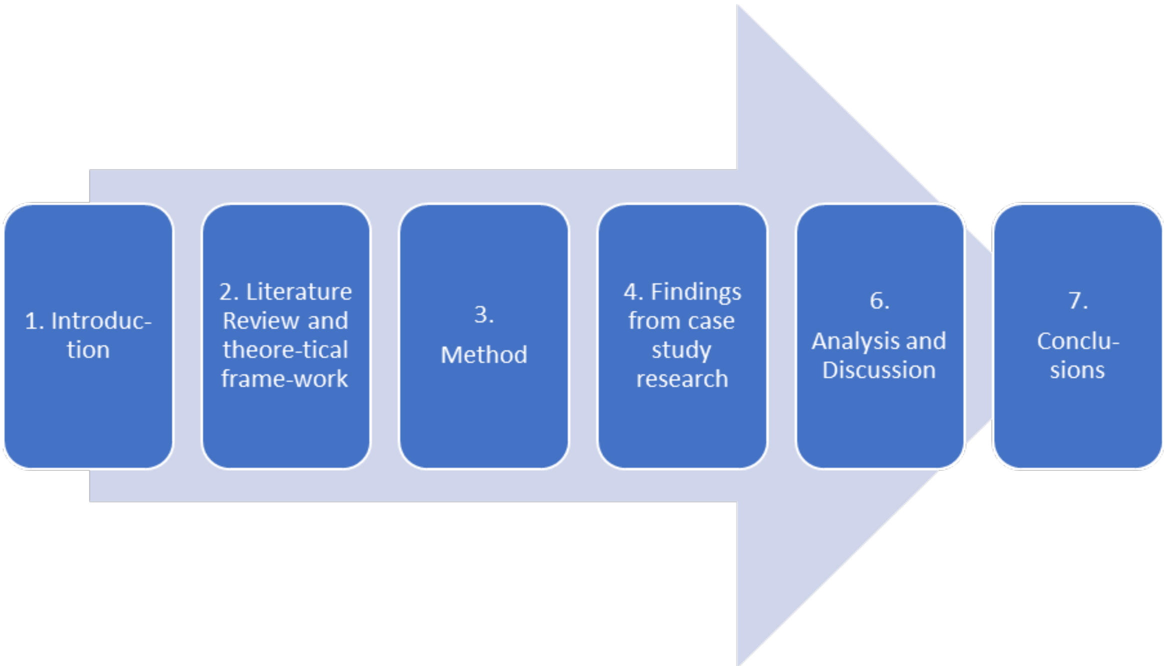


Figure 1. outline of the study.

2 Literature review and Theoretical Framework

This chapter presents the literature review on the phenomena of microfinance, followed by the selected theories and a suitable conceptual framework for the study. In consideration of the aim of the study which is to identify and explain how microfinance institutions build financial relationships with rural communities to enable them access to financial services a literature review concerning the work of MFIS has been accomplished. This literature review will describe the work nature of MFIS in rural areas, followed by the merits of MFIS to the poor along with the new financial business model of MFIS in Sub-Sahara Africa and after the engagement of MFIs. Thereafter the chosen theories will be presented and lastly the conceptual framework will be presented to further guide the analysis and the discussion.

2.1 Literature Review

2.1.1 Description of the work of microfinance institutions

In literature, microfinance institutions are defined as special organizations having a social nature along with a profit mission. MFIs offer financial services like loan, deposit, saving accounts, insurance and other service to the poor. Their core business relies at understanding the specific needs of the poor and on defining better ways of serving them in order respond to their requirements and help them to access finance services (Maes and Foose, 2006; Goswami & Roy, 2013). MFIs were introduced in 1970s by development agencies to promote economic development by accessing productive resources. MFIs were given mandate to provide small loans to the poor who were previously excluded by traditional banks. Through the access to microcredit, beneficiaries of microfinances were believed to be empowered to actively participate in the development of their localities through income generating small businesses (Maes and Foose, 2006).

Microfinance institutions is a big industry whereby thousands of organizations operate to serve 155 million of customers around the world (Kent & Dacin, 2013).The Bangladesh's Nobel laureate, Muhammed Younus has demonstrated through the Grameen bank's business model that the poor can be treated as any other customer by any financial institution. The poor has shown its capabilities to use financial services like to get small loans and be able to pay back loans. The business model relies on the aim of lifting the poor out of poverty by providing those small loans which help in the establishment of income generating businesses like rice-husking, machine repairing, purchasing rickshaws, buying milk cows, goats and pottery. The undoable has been enabled by the design of the scheme which removed the need of a guaranty which has blocked the poor in the past years, because it was a precondition to be guaranteed loan. And build its new banking system depending on mutual trust among the group members, accountability, participation and creativity in regards to serve rural based population (Yunus *et al.*, 2010; Goswami & Roy, 2013).

2.1.2 The merits of microfinance institutions to the poor

Many scholars have argued about the role of microfinance in the alleviation of poverty. It has been argued that MFIs have impacted the lives of the poor in different ways. Especially in Asia, from the small businesses, the customers of MFIs have been able to pay school fees of their children, to provide 3 meals per a day for all the households members, to have a sanitary toilet, to have clean drinking water, (Khandelwal,2007;(Yunus *et al.*, 2010; Miled & Ben Rejeb, 2015).

Hollis and Sweetman (1998) have argued that microfinance institutions were able to serve the poor at competitive interest rates without the support of subsidies and this supports the fact that microfinance industry is built on existing social structures which help them to minimize the adverse selection problem between the borrower and the lender. Because microfinance institutions must find financial ways of serving the poor at lower costs and support the idea that a microfinance institution should fully cover its operating costs and expenses from the program revenues (Morduch, 2000). Even though on the other hand, it has been argued that microfinance institutions are lacking an element of self-sufficiency and sustainability. Many microfinance institutions have failed to cover their operating costs due to a huge amount to subsidies and gifts provided by governments or donors as a motivation to microfinance institutions to serve the poor (Brau & Woller, 2004).

2.1.3 The new financial business model and microfinance institutions in Sub- Sahara Africa

Their role to close the gap between traditional financial institutions and the rural population has not been left out. Brau & Woller (2004) stated that Microfinance institutions provide financial services products as other financial institutions, the only difference being the scale and the delivery methods. Nourse (2001) stated that microfinance institutions have focused on lending products but there is a need for other products like savings products and insurance service for the poor.

The agriculture being a source of live hood for rural areas-based population, the development of agriculture sector remains very important in developing countries. And the expansion depends on how much capital the farmers will be able to invest in their lands for the purchase of good agricultural inputs (like seeds, fertilizers,…) or other modern agriculture equipment like irrigation systems in case of drought (Singh, 2010). Singh (2010) pointed out the role of MFIs to be the source of capital to support the development of agriculture sector for developing countries. Because it has been shown that rural farmers are not able to save enough of money to support themselves when it comes to agriculture investments and at the same time the agriculture sector covers 60% to 99% of the rural based population in developing countries *(Singh & Sagar, 2004).*

But Singh (2010) also pointed out how agriculture is associated with climate risks thus it is still problematic to finance the agriculture sector (Singh, 2010). On the top of climate risks, farmers are in remote rural areas and sometimes MFIs are discouraged by the operating costs. For example between 2000 and 2007 in India, only 8% on the total money disbursed as loans were destined to agriculture, yet trading activities and consumer loans were about 78% share (Singh, 2010).

The expansion of MFIs in Africa has been linked to the economic growth of Sub Sahara Africa countries in the past years (Njiraini, 2015). Both the number of depositors and the active borrowers increased respectively from 3 million to 20 million and 3 million to 7 million between 2002 and 2012 (Njiraini, 2015). A lot has been said on the role of MFIs in Africa, how they have helped the poor to sustain themselves through the access to credit. But that have not left out some criticisms about its impact in alleviating poverty. Critics have qualified it as neutral, because a big share of people in sub-Sahara Africa around 40% are still living on less than $1.25 per day (Wapakala, 2016). Wapakala (2016) has argued that for MFIs to be able to deliver, they should be able to connect with the local conditions in place and build on the existing institutions to be embedded in countries economy. Thus, they will enable the economy to grow through jobs creation from the small and mid-size enterprises without only focusing on microcredit (Njiraini, 2015).

There is not that much literature On MFIs in Rwanda but according to the study of (Mukamana *et al.*, 2016), it can be argued that MFIs have removed the access barriers like guaranty and high interest rate in order to attract customers. Through the grouping lending system even the poor can access credit without a physic guaranty. The group creates a pool for its members, it is easy for the MFIs to follow on the borrowers and at the same time to have a guarantee of repayment.

2.1.4 Microfinance instutitions engagement

From all the merits of Microfinance institutions, a little has been said on how to reach the underprivileged customers and on how MFIs can incorporate innovation to design and channel their products as they are targeting a market niche which is special due to their prior conditions of poverty (Lyngdoh & Pati, 2010).

The issue of the agency problem has characterized the MFIs. It was of huge operations costs for MFIs to collect all information on their customers before the disbursement of the loan and to do follow up to confirm that the loan has been used as it was intended. And all those costs regarding the size of the loans, the mathematics could not add up (Hollis & Sweetman, 2001). Thus, MFIs have started to incorporate the element of social capital labels like trust, social norms and social networks to minimize the agency problem and be able to effectively design products which fit the rural areas. It is assumed that people who live together in the community develop social ties and know each other better than the MFI which plays the role of an outsider in this context (Hollis & Sweetman, 2001).

It is argued that MFIs have been able to remove the barrier of guaranty by introducing the social guaranty method via the group lending whereby the concept of joint liabilities plays it role. Under joint liability, every member feels responsible for the group members, because if one member fails to repay the loan, the group members are responsible for that loan (Brau & Woller, 2004). And if the structure is not followed, the group members will not be guaranteed loans in the coming future and this is important because there is the element of how someone is viewed by the society and it matters in a rural community, all is about social standing. We can’t omit to mention the importance of peer monitoring which help MFIs to minimize their operations costs, to charge low interest rate and at the same time secure the repayment of loan at lower rate (Brau & Woller,2004).

The best practices in the MFIs have been argued on in the literature with a focus on how specific every market is and how things change as the MFIs field grows. It is important to have customized products which are responding to the demand of the specific targeted customers and this brings in the element of who the MFIs will serve, will it be individuals or group of people, the literature has most of the time focused on the group lending but also the individual lending is also performed in Eastern Europe, Russia and China. The interest rate to charge in order to not hinder the access for vulnerable customers, what will be the size of the loan and how will the MFIs will manage the customers relationship, are elements which matter to guide the practices of the MFIs (Brau & Woller,2004).

The theory of social capital will be more elaborated in the coming section on theoretical framework. But first, the concept of the bottom of the pyramid popularized by Prahalad (2004) will be the starting point to tackle the problem of financial exclusion which still exists in poor rural communities. And lastly, a conceptual framework will be drawn to guide the study scope.

2.2 Bottom of the Pyramid Concept

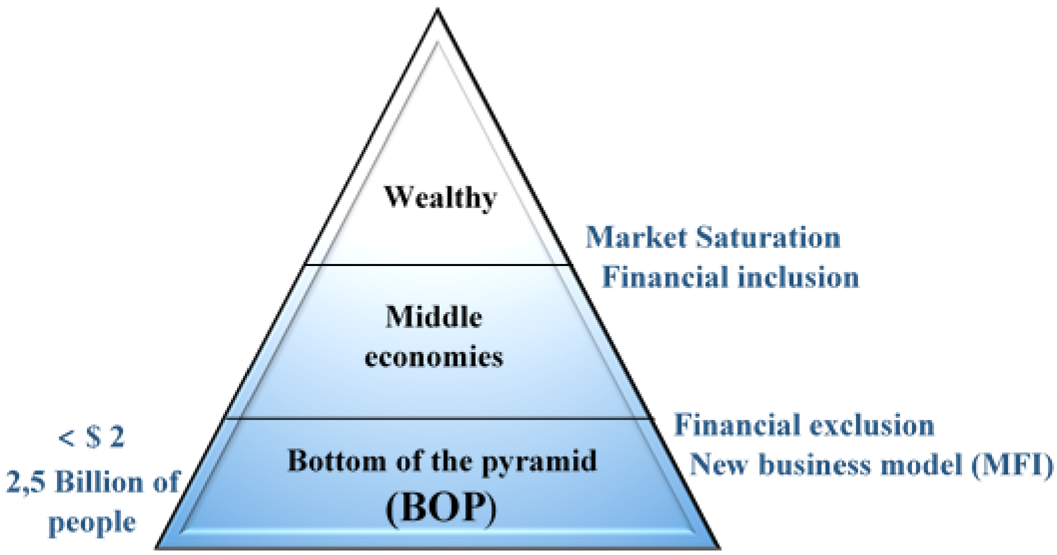
Bottom of the pyramid (BOP) is defined a socio-economic concept that helps to segment the low-income market of poorest citizens (see figure 2). That segment englobes a less attracting and invisible market which is easily neglected by the multinational corporates (MNC). Prahalad (2004) has argued that the poor also has the same desires as the rich and showed that the BOP is an untapped market. Historically, communities in the BOP have had limited access to financial services; the traditional financial services model has failed to engage and create a financial relationship with rural communities. And it has resulted in a financial exclusion when it comes to banking services (Leonhardt & Chu, 2017).

People in the BOP segment need quality products and any company that we will customise their needs into product which are affordable will gain profits and at the same time help the poor to alleviate poverty. E.g. in the 1970s, Neste contributed to social progress and at the same time made profit from developing the competitive advantage in Moga, a district of India, nestle provided farming training and added on a finance assistance which was not charity through the provision of loans. It helped Nestle to achieve the targeted production, because farmers were financially empowered to invest in their dairy activities (Pitta *et al.*, 2008).

The example above supports what Prahalad acknowledged: that to serve the low-income segment, it requires a scheme which is designed to tackle the special needs and at the same it requires the involvement of other players like local and central government, financial institutions and NGOs. That partnership of different players helps to create *buying power* which most of the time is lacklustre in poor countries, secondly it helps *shaping aspirations through product innovation and consumer education*, thirdly, *improving access through better distribution and communication systems* and lastly *tailoring local solutions* ((Pitta *et al.*, 2008, p.4*).*

The BOP counts around 4 billion of people who are living on less than 2$ per day (Prahalad, 2012). And for a long time, the BOP which still constitutes the largest number of the global market has been viewed as unattractive and challenging compared to middle and high-income markets. Nevertheless, BOP consumers are wishing to have customised products which are tailored at their needs and living conditions. In response to the finance exclusion, microfinance institution has introduced a new financial business model which presents inclusive products targeting the low income market and at the same time meet their poverty conditions like of lack guaranty which characterise BOP population (Nakata & Weidner, 2012).

The BOP concept helps to position the phenomena of MFI as an alternative financial services model which can reach poor communities. Microfinance means a financial business service model, that are accommodating the needs of rural communities, but it does not mean it is a charity model, but a business model designed to fit rural areas. BOP does not only help to position the phenomena of MFI, it also helps to explain the type of market, MFIs are dealing with. Rural communities represent a context in which financial exclusion happens and whereby the financial relationship is lacking.



The figure 2 illustrates The BOP segment which accounts 4 billion of people, around 2,5 billion of people are financially excluded (World bank group, 2014). The BOP concept helps to position the new business model of MFI as a solution which can fit with the characteristics of this market. The characteristics of the BOP and the new business model of MFI will be further developed in the next sections.

2.2.1 BOP customers characteristics

As stated by Hammond et all (2007), the BOP englobes Africa, Asia, Eastern Europe, Latin America and the Caribbean. In Africa and Asia, rural areas dominate the BOP market and it is the other way around in Eastern Europe, Latin America and the Caribbean whereby urban areas dominate. The estimated buying power approximate around $1.3 and Africa alone covers $120 billion (Pitta *et al.*, 2008). It has been found that the consumers at BOP spend the big portion (50- 75%) of their budget on food which is a totally different scenario compared to the rich segment of the pyramid which spends only 35 % of their budget on food. Low income consumers spent small amount of money and shop on daily basis. That is explained by the fact that they have limited and unstable cash flow. To be able to serve the BOP, the element of culture must to be considered e.g. for the researches showed that the stay home mothers are the ones to decide on spending and family purchases. From doing so, they fulfil their roles as mother, wife and householder manager (D'Andrea et al, 2004).

According to Pitta *et al.* (2008) BOP being different of what corporations have been used to, it will require new techniques and freedom from the said accepted knowledge, because BOP is totally different and companies will have to avoid to use the so called truths as they may not be applicable. The integration of consumers into products development to benefit from consumers inputs rather will decrease the risks of market failures. The BOP market requires a different business model which focuses on cost, good quality, sustainability and profitability, thus firms need to adopt their marketing mix to meet the characteristics of BOP consumers' complicated products will hardly succeed in BOP market. Pitta *et al.* (2008) suggest that pillars of BOP business model can be built on access to credit, establishment of alliances, and the adaptation of the marketing mix.

2.2.2 Microfinance and BOP

Based on the argument that if a business is able create jobs and to generate income, the consumption will follow, microloans are viewed as a solution to self-sufficiency. If, the poor could access small loans and become an income generating person, the BOP consumers will be no longer considered as unattractive but as potential customers. As it has been in the literature, formal traditional banks have failed to avail credit to this market and when it was done, the cost of access was enormous to discourage them. Without the creation of buying power, there is no way BOP people will be able to success services and products (Pitta *et al.*, 2008).

Due to the specificity of BOP, consumers who are low income people and MFIs schemes which are specific in the way, they design products and services, the growth of microcredit market has been observed in different developing countries. And not only the BOP has attracted microfinance institutions, even traditional banks have been able to see that there are opportunities in BOP market like an opportunity to diversify their portfolio, to have an element of social responsibility in their business and a possibility to work with other organizations like NGOs and governments. The scenario has been observed in traditional banks in Latin America and sub-Saharan Africa (Westley, 2007).

According to Elaydi & Harrison (2010) firms which engage with the community to capitalize their hopes and aspirations, grow with the community and result in poverty alleviation. Thus, it is important for firms which target BOP markets to know why they are entering, what they hope to accomplish and what will be their long run impact in the lives of the community.

2.3 Social Capital Theory

Social Capital Theory (SCT) is defined as collective attribute which refers to features like a shared sense of identity, socials networks, shared social norms, trust shared values, cooperation and reciprocity which effectively govern and facilitate coordinated actions within social groups (Putnam et al., 1994). A lot has been discussed on the role of social capital in economic behaviour of the people for the last decade (Rathore, 2015). And the theory of social capital inspired the innovation of microfinance institutions model via which a poor accesses credit without a guaranty but based on their belongings in self-regulating solidarity groups. Based on the recognition of social networks, life interaction within a group of people, reciprocity, trust and social norms; there is information sharing and transmission on the members of the community in a given structure (Rankin, 2002).

Social capital gives description of circumstances under which members of a group, can use membership and networks to gain market and non-market benefits such as access to resources and financial services. The society helps to understand the personality of an individual and that information can be used by a third party when needed to take decisions based on the integrity of an individual, like the case of MFIs which are trying to solve the issue of adverse information (Sobel, 2002).

In practice, MFIs engage in the collective for financial sustainability reasons, through the collective work, they reduce administrative costs and motivate the repayment process.
People who evolve together, they create networks and forms of association which later become a moral resource that cements the community together (Putnam, 1993).

According to Rankin (2002), the common understanding within a community forms a sort of trust and because the members of the community are trusting each other, norms of reciprocity are created to overcome any individual opportunistic behavior towards a more collective action attitude. Through collective action, shares values are extended towards a sense of stewardship and the group is even ready to sanction any individual misconduct for the interest of the group or for a common good (Putnam, 1993). And this is financially beneficial for MFIs as it reduces their operations costs while collecting information on their customers and follow up for loans repayment.

According to the World Bank (2001) social networks among the poor could facilitate and strengthen the formal market where transactions costs are decreased to enable private firms to gain profit. The role of communities is emphasized by Woolcock (2001), social interactions among neighbors, friends and groups when they work together for a common good, shape social capital.

The proliferation of microfinance programs in the 1990's through the restructuration of banking systems to avail credit marked a shift on how poverty alleviation was approached. Through the membership system, borrowers can access credit based on social guaranty. The barrier of a guaranty requested by traditional banks is removed on for poor communities. The MFIs use their social capital as a physical guaranty. Social capital labels like social networks, social norms and trust help to gather correct information on borrowers and further create value in return for both the MFI and rural communities (Rankin, 2002).

According to Goldmark (2001) social capital qualities have guided the loan methodologies for village banking and group lending schemes, every individual is asked to approach the financial institution once they have formed a group of 3 to 5 people. And from the MFIs perspective, it helps in the delivery of services in an easier way and the group serves as a forum from which the customers express their demand and there are high probabilities that the information will flow to create new market linkages.

Rural credit market in developing countries were characterized by information asymmetry, thus hindering the access to credit for small borrowers. It was hard to screen, monitor and enforce the disbursement of loans. And according to Wenner (1995), the informal lenders which are common rural areas were not facing the problems of high screening and monitoring costs. It was explained by the fact that they have been using the social proximity to gather necessary information on their customers. Thus, it had to be adopted by MFIs through the lending group as a solution to the financial exclusion problem.

Rathole (2015) pointed out, how valuable the relational of social capital is to create trust between group members and social sanctions in case of default to group obligations. The trust generated by social ties, make everyone responsible and it is an assurance that everybody will repay back their loan if not the social sanctions will affect the whole group. And it is an assurance for the MFIs that any costumer which should not be trusted, will be reported by his or her neighbors. The self- selection in a group lending schemes is based on the people of the

same values (Rathole, 2015). Cassar et al. (2007) also emphasized on the trust either in the society or individual towards the group members as one of the aspects of social capital and argued on how it helps in the repayment of loan. Because every individual shares the same belief that everyone will pay back to ensure the continuity of loans acquisition in the future. it builds a strong level of trust based on experiences within the group on loans repayments.
But also Cull et al. (2007) advanced that not only social capital influences the performance of lending schemes, there are also other elements like the quality of loans officers and the design of the scheme.

Woolcock (2001), Goldmark (2001) and Wenner (1995) wrote about social guaranty which characterizes microcredits in a way that microfinance institutions do not require physical guaranty to lend money to the poor. Therefore, from a traditional bank's perspective, the lack of guaranty and the small size of loans have been sources of huge operations costs and thus a risky venture to lend to the poor (Woolcock, 2001).

According to Yunus et al (2010), the success of microfinance institutions has been prompted by the existence of social networks among the group of individuals who benefited the small loans. The scheme is built in a way that the lending is done to a group of people and together they create a joint liability. If one member fails to pay back the loan, the other members are supposed to cover the repayment or lose access for future loans. The business model of MFI can't rely on valuable assets like land, houses, they need to have to social capital to enable values in return and build the financial relationship with the targeted communities.

The traditional financial model has failed to create a financial relationship with rural communities. Through the analytical labels of trust, social networks and social norms, MFIs have been able to engage and have a financial relationship with the same rural communities. The social capital enables the new business model of MFIs to present a value proposition as any business model to the rural market and gain value return (Vargo & Lusch, 2012). Thus, the study uses the social capital labels as enabling conditions for a financial relationship to happen and last.

2.4 Conceptual Framework

This study focuses on how financial relationship between MFI and poor communities are built. The reason is firstly microfinance institutions do not do charity and secondly because of the market oriented and capital system. MFIs need to develop profitable relationships with rural communities of Rwanda.

The theoretical starting point of this study is the BOP concept which gives a description of a market segment which has been looked as unattractive for business. The BOP counts the low-income countries and whereby most of the population live in the rural areas (Prahalad, 2004). There are different products or services which are not easily traded in the BOP segment such as financial services. When it comes to financial services access, the rural areas have always lagged mainly because of the nature of financial business models that are not developed for rural markets.

The study draws on the concept of BOP to understand the market characteristics of rural communities who are poor. But regardless of the poverty conditions, the rural based population presents a unique society structure which depends on social capital labels like trust, social networks and social norms which enable them to live in harmony. Thus, to investigate how relationships are built between MFI and rural community, the study uses the social capital theory with focus on trust, social norms and networks. These are built in sites where people gather in rural areas and situations of social capital structures which are present in rural communities. Thus, the sites and situations are conditional and contextual as they are unique to the rural areas. According to Rankin (2002), based on the recognition of social networks and life interaction within a group of people, social networks are built based on the values of reciprocity, trust and social norms and information transmission within a community.

The author of this thesis has created a conceptual framework to analyse how a MFI builds financial relationships with rural communities to enable them access financial services. This study will help to get insights on how such relationships are built from a marketing perspective with a focus on rural market. From the literature a lot has been said on the socio-economic aspect of MFIs: the alleviation of poverty and help to the poor. Little knowledge is available on how the financial relationship is built, even though MFIs have a social element, MFIS are also looking for profit as any other business entity (Jose & Robert Buchanan, 2013).

Therefore, the below framework (see figure 3) is created to identify and analyse sites and situations under which financial relationships between Réseau Interdiocésain de Microfinance (RIM) and rural communities are built.

The conceptual framework is developed to address the following research questions of the study:

1. What are the characteristics of the market for financial servies in the rural areas of Rwanda?
2. What is the value proposition developed by MFI to buid financial relationships with customers in poor rural communities?

3. What are the sites and situations where financial relationships are built between MFI and poor rural coomunities.

Question 1 relates to understand the characteristics of rural communities as market of MFI, Research question 2 relates to understand the concept of MFI, how they develop a value proposition and research question 3 relates to sites and situations to understand how the financial relationship is built in the context of Réseau Interdiocésain de Microfinance (RIM).

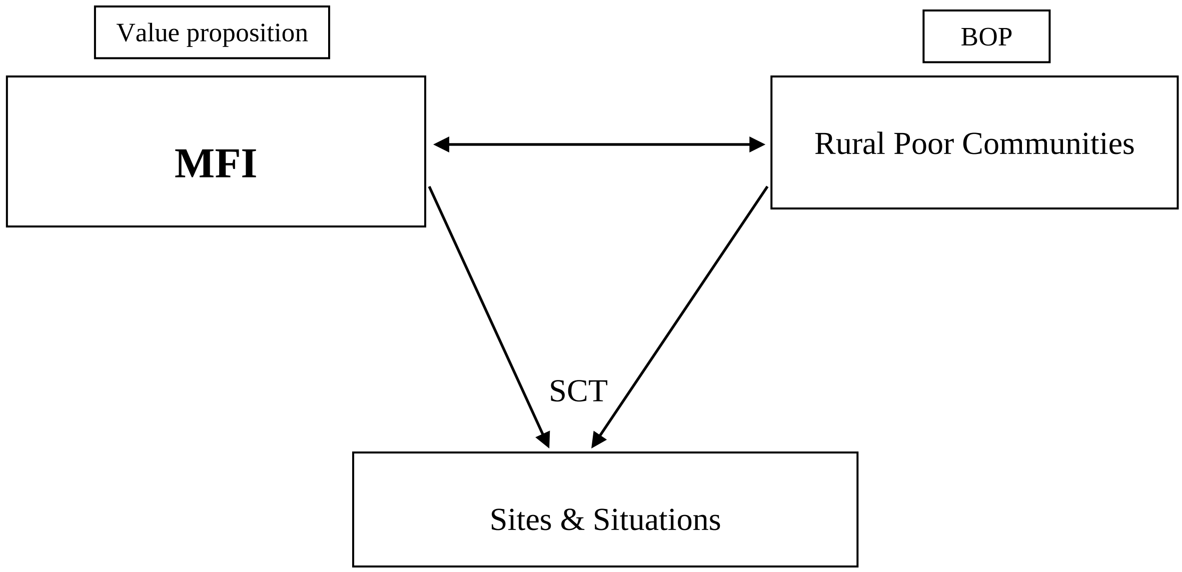


Figure 3 The Conceptual Framework (own illustration).

The figure 3 is generated from the theories presented previously in this chapter. The conceptual framework will be used to answer the aim of the study which is to identify and explain how Microfinance institutions build financial relationships with rural communities to enable them access to financial services. Previously, the conceptual framework guides the process of data collection which will be presented in the following method chapter.

3 Method

In this chapter, the choices of method for this study are presented and justified. In addition, the author motivates the rationale of the made choices. Further, the data collection and data analysis are explained. The ethical considerations and critics against the chosen method are also included in this chapter.

3.1 Research Strategy

Social research studies use different research strategies (Bryman & Bell, 2015). The nature of the research translates into different ways of collecting data (Creswell, 2014). It can either be quantitative or qualitative. The qualitative research methods use various ways of approaches to describe and gain an insightful understanding into a problem. It is a research approach which emphasizes on words rather than quantifiable values during data collection and analysis in a study. This is to gather a deep understanding of a phenomena (Bryman & Bell, 2015).

According to Taylor *et al.* (2015) qualitative research method is well suitable to studies aiming at responding on how and why questions of human experience in a given context. The qualitative research method helps the researcher to understand phenomena from an interpretive perspective-based on meanings given by people. This study being an exploratory study, it has been carried out using a qualitative research method, there is no better way of studying the issue of financial exclusion and the phenomena of MFI in in the context of Rwanda. The researcher wanted to understand the phenomena of MFI from the perceptions of the respondents and the qualitative research method was suitable to capture the reality in a more open manner using words.

This study uses the flexible research design. The flexible design allows the study to evolve and develop as the research proceeds (Hughes, 2012). Business and management cases studies build on research design of one or few cases (Mills *et al.*, 2010). According to Mills et al (2010), a case study is a research design which focus on a single entity to get detailed and in-depth information about the entity of the study. The entity can be an individual person, a group or an organization (Mills et al, 2010). As stated by Eisenhardt (1989) and (Bryman & Bell, 2015), a case study strategy aims to analyse and describe the driving forces in a certain situation and it is characterized by boundary limitations which lead to intensive examination of the phenomena.

In this study, a specific organization Réseau Interdiocésain de Microfinance (RIM) was studied, and a case study design was suitable for this study. This thesis uses an intensive case study design to describe the case. As the intensive case study design focuses on the perspectives, experiences and conceptions of the people involved in the study. The researcher plays the interpretive role to explain and understand the case under the study(Mills *et al.*, 2010).

3.2.1. Choice of Case and Unit of Analysis

A crucial element of the case study is to understand the unit of a case (Bryman & Bell, 2015). The choice of the case company was made from a purposive sampling. The purposive sampling is the way of choosing a sample deliberately (non- probability). It is the researcher who set the criteria to follow with no probability while choosing the representative group for the study depending on how relevant the participants or the cases are to the research question (Morse, 2004).

The unit of analysis being defined as entity, things or persons which are being analysed in a study. It can be a group of people, an organization… (Vogt, 2005). This study is a case study on RIM focusing on sites and situations where financial relationships are built with rural communities. Since the study wants to identify and explain how microfinance institutions build financial relationships with rural communities to enable them access to financial services. RIM a microfinance institution which provides financial services to rural communities was suitable for the study.

3.3. Research Approach

The research approaches are either deductive, abductive or inductive. The deductive approach builds on the relationship between the theory and observations. The research starts from the existing theories to draw a conclusion by rejecting or accepting the selected hypotheses (Schwandt, 2007; Bryman &Bell, 2015). On the other hand, the inductive approach used in research when the theory or conclusions of research are developed from data gathered in contrast to the deductive approach (Bloor & Wood, 2006). The abductive research approach is an approach which starts from observation leading to theory in the simplest way but sometimes with no guarantee of a conclusion (Schwandt, 2007).

The inductive reasoning moves from a particular case to the general principle. It uses existing knowledge and observations to analyse new cases (Hayes *et al.*, 2010). The inductive reasoning was suitable for this study seeing that the phenomena of microfinance was explored using the lenses of the BOP concept and the theory of social capital which inspires the work of MFIs. The author decided to explore one case, Réseau Interdiocésain de Microfinance (RIM) in its own context. And further, the empirical findings helped to gain more insights on the existing theories and draw a conclusion on how financial relationships between MFI and rural communities are built.

3.4. Data Collection

The data was collected primarily from semi structured interviews. Semi-structured interviews are planned to get views and responses from individuals on a specified subject or known phenomena (McIntosh & Morse 2015). Semi-structured interviews use open questions. This is to encourage and enable the interviewee to respond in their way. And at the same time, semi structured interviews help the researcher to analyse and gain new views and insights (McIntosh & Morse 2015). The structure nature of semi structured interviews enables the researcher to deepener the questions depending on how significant respondent answers are (Bryman & Bell, 2015).

While conducting the interviews for this study, an interview guide was elaborated to guide the discussions. The participants in the interviews were selected by the representative of the case company. The representative used the purposive sampling to appoint two employees of the company case who were well informed on the phenomena of the study and one of the employees also appointed two suitable customers who participated in the study. Taking into consideration the size of RIM and the size of their customers, it would have been difficult to talk to everyone, thus the respondents who were selected were knowledgeable and available.

- Respondent A is the chief of operations in charge of all outlets of RIM.
- Respondent B is the agriculture specialist, leading the lending agriculture unit of RIM.
- Respondent C is a farmer who started working with RIM in 2011 and who was still working with RIM at the time of the research.
- Respondent D is a farmer who started working with RIM in 2017 and was still working with RIM at the time of the study.

As the company case is based in Rwanda, the respondents are Rwandans and the interviews were held in Kinyarwanda. The respondents were comfortable in their mother tongue which resulted in the translation of the interviews later in English. But according to (Smith, 1996) translation can sometimes not convey the original meaning of words and the researcher is aware of that. However, having the interviews in Kinyarwanda eased the discussions for the researcher and the respondents. For all of them. English is not their native language.

Due to the geographical disparities between the researcher and the respondents, the study adopted phone interviews. The popularity of using telephone interviews has been increased due to its advantages of being less costly in time and in financial resource consumption (Block & Erskine, 2012). Telephone interview gives the chance to access information in different locations of the world at the same time. It enables direct supplementary questions as a personal interview does but on the other hand does not offer the chance to analyse body languages (Opdenakker, 2006). For this research and due to financial constraints phone interviews were conducted. The table below shows the respondents function, time of interview and the length of the interviews.

RESPONDENT	FUNCTION	Time	Length	Form
A	Chief of Operations	2018.09.21	35 minutes	Telephone
B	Agriculture Loans Specialist	2018.08.14	45 minutes	Telephone
C	Customer 1	2018.08.16	40 minutes	Telephone
D	Customer 2	2018.09.03	30 minutes	Telephone

Table 1 List of respondents

3.5. Data Analysis

According to Nowell et al (2017), for a qualitative research to be recognized and valued. Data analysis must be conducted in precise and consistent and inclusive manner from the recordings to be transparently communicated to others. The study used the thematic analysis technique to analyse the data and expand the existing theories on microfinance institutions.
Bryman & Bell (2015) argued that the main constraint of qualitative data is the fact that it generates a lot of information which sometimes can complicate the analysis when the researcher is trying to find analytical paths in the set of data. The thematic analysis is based on *identifying, analysing, organizing, describing, and reporting themes found within a data set* (Nowell *et al.*, 2017, p.2). It is performed by systematic classification process of coding and identification of themes and patterns in text collected as data.

The information collected from the interviews were transcribed to words to avoid any leakage of the collected information. All the 4 interviewees accepted to be recorded, thus every conversation was transcribed into words. Further, the analysis of the transcribed information was analysed based on themes underlined in the conceptual framework.

3.6. Finding literature

Literature review is done to understand how the social phenomena has been scientifically discussed in the business field. Literature review is also defined as the usage of existing information which have been gathered for other research topics to respond to the current research questions (Smitt, 2008).

The literature review in this thesis was narrative, thus objective, comprehensive and critical as suitable to a qualitative study. The literature review focused on the topic of the research. The existing literature on the phenomena of MFIs has been reviewed to gain a deep understanding and guidance to build for the structure of the empirical findings.

For this study, different sources of information were used to respond to the research questions. To get an insight into the topic and theories secondary data was utilised and gathered in form of a literature review. As part of this literature review, books, journal articles available through the Swedish University of Agriculture Sciences library's search engine and online data that were classified as trustworthy sources were used to support the theories and the study work in general. Examples of key words used were: Microfinance, Marketing, Rural communities, Financial services, financial inclusion, financial exclusion, BOP market, Social Capital.

3.7. Quality Assurance

According to Bryman & Bell (2015), business and management researches generally are evaluated based on three criteria reliability, replication and validity. (Reynolds *et al.*, 2011) argued that guidance on how to test the quality assurance for qualitative methods have not be so clear compared to the quantitative methods. Bryman & Bell (2015) suggested that the element of reliability and validity can as well adopted to qualitative research by adjusting their meaning rather focusing on the lack of measurement in qualitative strategy. Guba &

Lincoln (1995) came up with specified terms and ways of looking at the quality of qualitative studies under the criteria of trustworthiness and authenticity.

The criterion of trustworthiness is subcategorized under credibility, transferability, dependability and confirmability. Quality in the context of qualitative research is the ability to generate a good understanding of a situation rather than measurable truths (Golafshani,2003). According to Lincoln & Guba (1995), the credibility of the research is determined by the reader. This study has used trusted source of data to preserve the element of credibility, in this case it was not possible to have all the respondents' validation due to the language barrier. But Deacon et al (1998) said that triangulation can be used as a cross check tool to validate the findings.

This study has provided a thick description of the case in it's culturally context to maintain the element of transferability as suggested by Lincoln & Guba (1995). This study has been conducted with good faith with a minimization of personal values even though complete objectivity is hard in business studies and that was to preserve the element of confirmability as encouraged by Lincoln & Guba (1995). Lastly the criterion of authenticity which looks at different elements like fairness, ontological authenticity, educate authenticity, catalytic authenticity and tactical authenticity. This study has tried to touch upon the element of fairness by including also other stakeholders i.e. the customers of the case company to get diversified views rather than concentrating on the heads of department. Due to the limitation on time and geographical disperses, it was not easy to touch upon on all the elements of authenticity criterion as encouraged by Lincoln & Guba (1995).

The study has aimed at providing a high level of trustworthiness and integrity to reach the aim of the study. Trustworthiness is criteria used to assess the quality of a qualitative study to be reliable and externally valid (Bryman &Bell, 2015) and integrity is defined as a virtue of moral character, believes, principles and honest which characterize the researcher. Therefore, it leads to the trustworthiness of data collected in a study (Watts, 2008).

3.8. Ethics

According to Bryman & Bell (2015), ethics in business and management research evolve around the concerns of how to treat people on whom the research is conducted on or the kind of activities we should or should not engage with them. Bryman & Bell (2015) name four areas under which ethical concerns rise: whether participants are harmed, informed consent, invasion of privacy and deception. Deontology, it is a theory of morality built on a no consequentialism approach. The actions are not justified by their consequences, but the factors rather than good results determine the rightness of an action (Ginsberg & Mertens, 2009). For this study any interaction with the participants stuck on the phenomena of the research without any invasion in their privacy and participants have been informed about the recordings of the interviews to get an informed consent.

3.9. Critical reflection of chosen method

Qualitative research method is often criticized of being subjective and this is because, the empirical findings depend on the interpretation of the researcher. And because researcher creates personal relationship with the people studied, that relationship can increase the element of subjectivity. It is the researcher who determines what is important and because the research started in open ended way to be narrowed down gradually as the research evolves. From the critics, they see this issue as a delimitation because the reader sometimes does not know why one area, or one concept was chosen rather than the other (Bryman & Bell, 2015).

Bryman & Bell (2015) also argued that qualitative research methods are also criticized of not being easily replicated, because there is no clear procedure which can be followed. And most importantly the research relies on the interpretivist abilities of the researcher and because of the unstructured nature of qualitative data, the interpretation can be subjective.

Bryman & Bell (2015) also talked about the element of transparency, it is difficult to determine precisely what the researcher did, how the respondents of the study were chosen and how she or he came to the conclusions which were drawn for the study.

There have been critics on the generalization of case studies, pointing that the scope of the qualitative findings is limited. According to the critics, there is no ground for a single case be generalized. But Bryman &Bell (2015) have responded and argued that qualitative findings are to be generalized to theory rather than to the population. Because it is the quality of the theoretical contributions which are crucial in qualitative studies.

The respondents of the research were appointed by the company case and author of the thesis is aware that it can be an issue. There could be a bias in the selected people, those selected may only have positive views, i.e. not critical and it would have affected the conclusion of the study.

The author of this thesis has tried to be transparent as possible by providing and explaining to the reader all information on how the research has been conducted and the motives of the choices and decisions made.

4. Findings from case study research

In this chapter, a brief introduction of the case MFI will be briefly described, followed by the empirical results from the interviews. Two employees (respondents A &B) and two customers of RIM (respondents C &D) were interviewed.

4.1 Introduction to RIM

RIM is a local microfinance institution established through the collaboration of three entities; the Catholic Church, an insurance company, SAHAM Ltd and nonprofit organization Caritas Rwanda which support vulnerable through charity actions. The catholic church of Rwanda through its actions of supporting the human integral development, decided to orient their activities towards microfinance activities (RIM, 2018).

According to respondent A and B, after the Tutsi genocide which happened in 1994, there were so many vulnerable people who were seeking and expecting financial support from the church. And one of the missions of the Catholic Church is to sustain the welfare of its disciples. Therefore, the Catholic Church was urged to do something about that situation. From the emergency of the situation, the Solidarity Fund was proposed as a solution to these vulnerable people who needed financial support.

The idea of the Catholic Church and Caritas Rwanda established respectively in 1998 and 2000 was to find a way of supporting the poor in a more sustainable way. And they could not find better way in line with their mission of enhancing human dignity than funding small income generating projects and help people to embrace the culture of saving.

The Catholic Church started the initiative of providing small revolving loans to the poor as a pilot phase in the archdiocese of Kigali which is the capital city of and similarly the Caritas of Rwanda launched a project of funding women. Gradually, the Catholic Church and Caritas Rwanda through their learnt experiences, jointly expanded the lending programs to all dioceses in the country with an aim of reducing poverty.

Later, to comply with the regulations of finance sector governed by the Central Bank of Rwanda, the Réseau Interdiocésain de Microfinance (RIM) was created in May 2004. RIM was created with a mandate of coordinating all the activities in the different dioceses in order start to offering financial services in a more structured way. Currently, RIM is operational in the 30 districts of Rwanda with a target of serving rural based population (RIM, 2018).

RIM's vision is to become "the most successful microfinance institution with the most ramified network in Rwanda". In their strategy, their mission is to contribute to the reduction of poverty through savings and credit activities, to contribute to the growth of the country economy by the entrepreneurship of the population and to promote human dignity.

Further, RIM has 5 objectives; to promote initiative and enterprise spirit to its customers, to promote savings education and the use of credit as a tool for poverty reduction, to strengthen the socio-economic power of customers, to give priority to the application and respect of the principles of viability and sustainability and to strengthen the culture of savings and the solidarity guarantee through the Financial Solidarity Associations.

Last, RIM has 4 cores values; integrity, quality service, efficiency and solidarity to guide them into the fulfillment of their mission (RIM, 2018).

RIM as any other financial services provider, gives a range of products like current accounts, saving accounts and lending services for people who have income generating projects. The lending services are more special, you can be granted a loan as an individual, as a group or as an enterprise. And you will have to fulfil some prerequisites; having an active account at RIM Ltd for at least 3 months, having a bankable, profitable project and for a new solidarity group of 10 to 50 members, you undergo a financial training of at least 6 weeks (RIM, 2018).

4.2 Empirical Data from the Interviews

This part covers the empirical data collected through interviews. The interviewees are referred as respondents, this is to help the reader to follow without being confused by the long names of the respondents. And the conceptual framework is used to structure the findings of the case study around 3 sections: the rural market characteristics, the value proposition developed by RIM, and the sites and situations under which financial relations are built between RIM and rural communities.

Rural market characteristics

Respondent B describes the rural market in Rwanda as mainly characterized by poor people and RIM was created to serve those with limited financial means. RIM's mission is to improve the lives of people by providing small loans. Respondent B continues and says that their market is dominated by vulnerable people who can't afford to have a guaranty in the event of contracting a loan.

According to Respondent B, RIM serves different types of customers ranging from smallholder farmers, small traders of agriculture produces in local markets, tailors to big corporations. Respondent A categorizes their customers into 3 groups; the informal groups which is the largest group among the three groups, they join in groups as vulnerable people with limited financial means ; no valuable assets but with a high commitment and energy to develop themselves, the second group includes the formal groups which are registered as business corporations under the regulating law of business entities like cooperatives of farmers, companies, schools, health centers and the last group includes individual customers. Respondent A and Respondent B both confirm that RIM's market has evolved to reach by now 182,000 customers.

Respondent C explains how it was hard to access financial services, she recalls a time before 2011 when she started working with RIM. She needed to have a loan and when she approached a traditional bank (commercial bank) the conditions to fulfill were so hard; for e.g. the bank will ask her to present a guaranty and a certain amount as a deposit and she was having none of these. The only option was to just give up on working with financial institutions, yet she was interested investing in her farming activities.

According to Respondent D, before working with RIM, she was not in the position of accessing financial services. She started working with RIM in 2017. She says that before, it was hard for her to understand banking operations and she has seen some neighbors in trouble, when the bank was to seize their properties when they had failed to pay back their loans. Thus, she would prefer to not invest much in her farming rather than working with financial institutions. Respondent D says that RIM eases the access, because RIM is operating in rural areas, so they don't have to travel to town to reach them. And as rural area-based population, sometimes they don't have information on financial services providers.

According to Respondent B, RIM helps rural based population to access financial services. RIM eases the access for them, in a way that it is RIM which does the first step to go and look for the customers. This is done for RIM to understand the needs and concerns of the targeted customers. RIM has branches in the whole country and every branch has officers which are in charge for mobilization. Both, Respondent C and Respondent D confirm that RIM does something special which is to come to see them where they are. And it has never been the case before they started working with RIM.

RIM and its value proposition

The RIM business model is built around two components: the financial education and the group lending.

- Financial education

Respondent A believes that there is something unique, RIM does for the rural people which is to go and look for them. He says, they are the first ones to help them to be financially included, what he calls financial inclusion because most of the time they are exclude when it comes to work with financial institutions. Secondly, it is to provide financial education before any loan, and that loan goes without a guaranty, something which is not done by traditional banks.

According to respondent B, RIM works with people who have never worked with financial institutions before. Most of their customers are rural-based population, which justifies the fact that they need to have a certain level of financial education to be able work with RIM. As stated by Respondent A and Respondent B, RIM has a financial education program for rural areas, whereby they share basic knowledge on financial services and further explain how people work with financial institutions.

Respondent B expresses that the starting point is to encourage them at having an operating account, to help them to be financially included. The second step is to highlight the importance of having a saving culture, because savings enable someone to move from one level to the other in their lives. And most importantly, they teach them about respecting the loan contract, which is specified about what the loan amount is going to accomplish. RIM emphasizes on that, because there have been cases in the past, where people did not understand how important it is, to use the money for what it has been planned for e.g. people could ask loan for agriculture purpose and later use it may be for renovating their house or buying a household item which in the end will not generate income and put both the microfinance and the customer in trouble when it is time to pay back the loan.

Respondent B argues that it is important to visit the customers and see the kind of life, they have especially those in rural areas. It helps RIM to understand the resources of their customers and how they can financially be advised by RIM e.g. they start small by encouraging them to open a saving account, for some who has a small land of 0,02 hectare who is earning like 10 dollars per month from banana plants to start small by saving 3 USD and use the rest for the household needs. If, after 3 months, the person can show the willingness to be financially included and follow the advice of RIM about saving. RIM will ask him or her if given the opportunity to access a loan which in normal case is the saving amount times 10 if he/she can improve his/her way production by investing in high yield seeds. And RIM shows the new potential customer how his/her income will move from10 USD to 230 USD per month. Respondent B affirms that it is the justification of financial education if they can help someone to move from level to another.

Respondent D confirms the existence of the financial education, she explained how RIM provides trainings on how to plan and use the money they got from RIM, which is totally different from what they were used to do in their informal lending associations, where you would just get money without being sure of what you are going to do and sometimes on hard conditions of repayments. And in some cases, you would end up losing your properties when you would fail to pay back. Respondent C declares that it is through the financial education that they are taught how to work hard, to take risks, to respect each other, to love each other, to be trustworthy, to be a person of dignity and further to be ready to support each other in the solidarity groups.

- Group lending

Respondent B mentions that because they work with customers with limited financial means, RIM must strategize on how to serve them regardless their poor conditions. And one of the ways is to group them into what RIM calls "solidarity groups", they are called solidarity groups, because the group serves a guaranty for its members. Into the solidarity groups, they are grouped depending on their locations, where they live, they are supposed to know each other, and it is even better if they share the same profession. Because it easies their meeting sessions and in case one of the members fails to respect the timelines for the loans repayment, their other members can assist and follow up later him or her.

According to Respondent B, this is something you can't do for someone you don't know well, and you don't even love. She emphasizes on the fact that it is important for the group members to love each other on the top of knowing each other, because it is easier to have empathy and sympathy for someone you know, and you care about.
Respondent B views the group lending as a unique and special way to respond to their mission of serving the vulnerable ones and at the same to reach out for many customers as any business entity.

Respondent A explains how RIM interests people to come together in groups, the first message when they are meeting with their customers is to show them how important is to be together than to be alone in the battle of survival. So, people are encouraged to know each other better, to visit each and most importantly to help each other in case of need. Therefore, after that first step of showing the interest of being together in solidarity groups, comes the next step of showing them how people who have been able to succeed in their lives, have done it through working with financial institutions. Here, the key message is about showing how beneficial it is to access financial services like having savings account and access to loans.

Respondent A says when it comes to create groups, they ask them to group themselves with people they know especially neighbors or people in the same profession. Respondent A argued that they do so, because in case of default, the loan will be paid as a group loan; it implies that group members will pay for their defaulting member. Thus, it is important for them to know each other in terms of social norms. Respondents C and D add on that the success of their groups resides in how they control each other in the group and most importantly how they inculcate the respectful values within the group.

- Agriculture value proposition

As described by Respondent B, when it comes to agriculture lending, RIM follows the whole value chain depending on the crop. e.g. there are small farmers who need to be funded for the purchase of agricultural inputs like seeds and fertilizers, there are the traders of agricultural inputs, the traders of agriculture produce which need capital to be able to trade with the small farmers, the ones in transformation of agricultural produces and the last category of which is aiming at exporting the agricultural produces. Respondent A says, it is the only available, it is a privilege for farmers to give small loans because there are no other banks which can accept such business of small size e.g. someone asking for a small loan of buying maize seeds which will be less than 30 USD. There are no other banks which can perform those small transactions which also go with a small interest rate.

According to Respondent B, there are people who have been able to grow and move from one category to another, starting from a small loan of less than 30 USD in a group and move to the loan size of 300 USD and more. There are cases of people who started very small as a smaller farmer to grow to become traders of agricultural produces and some have even pushed far to build small plant for transformation of agricultural produces.

This has been testified by Respondent C who started to work with RIM from the lending group schemes. When she started, she was provided a small loan of 227 USD to plant pineapple fruits and she has evolved from there to be able to build her own small plant which produce pineapple juice. From this level, she is even guaranteed a loan of 50,000 USD.

The agriculture lending program is structured in a way that farmers apply for loans when the agricultural season is starting when they need agricultural inputs (seeds and fertilizers) and RIM leaves them enough to harvest and look for market for their produces before they are asked to start paying back the loans (Respondent B). Respondent B continues and says that RIM has an agricultural unity, because agriculture requires more follow up and adjustments than any other business, it requires to plant on time, weeding on time, harvesting on time, proper storage of the harvest thus customers need more technical assistance which goes beyond the classic financial services or banking models.

Respondent A says that they follow the seasonal calendar for farmers groups, but those farmers are also encouraged to meet every week, even if they will have to wait for the season to end to pay back their loans. When, they meet they are encouraged to bring anything they have got, even if it is a small amount. This is to encourage a saving culture in rural areas.

According to Respondent A, since 2014 RIM has enforced the agricultural lending schemes even if before they have been facilitating farmers because they operate in rural areas and the main activity there is agriculture. Respondent A points out how they are planning to invest more in agriculture, they want to support more projects of transformations of agriculture produces e.g. in the previous years, they had supported Irish potatoes growers to increase their productions, but they encountered a problem of market. There was no market for the potatoes at the time of harvest which means it should have been appropriate to store them in proper storage while the market will be adjusting. Reason why RIM thinks it has been good to assist farmers in small project of farming but now they think they can start to help the ones capable to invest in bigger projects like storage facilities or transformations facilities.

Sites and situations under which financial relations are built

Respondent A points out that they have two sites for channeling their information to reach out to a big number of customers. One is using the church services, every Sunday at the church service, many people gather at the church and RIM being owned by the Catholic Church, they easily take a slot to share the information about RIM's financial products. Respondent B points out how the ones present not only capture the information, also feel the responsibility to share it in the community with the no believers or non-Catholics. During the church services, RIM representative briefly talks about RIM financial services and they invite the interested ones to a proper meeting and RIM communicates the venue and the time. The Second way is community works known as "umuganda" is a cleaning activity, it happens on the last Saturday of the month, people meet to clean their neighborhoods, and it gathers everyone in the community above 18 years. And RIM books a time to interest people about financial services after the cleaning service.

Respondent D says the first time, she heard about RIM, it was through her catholic neighbors who had attended the church service. The respondent C also recalls the time, she heard about RIM in the service church and she was told that she can access loan without a guaranty.

For RIM to remove the situation of the guaranty on rural customers. They must group people into groups and it must follow certain conditions. In the rural areas, people forms solidarity groups based on how they know each other. They accept to group themselves due to the preexisting social networks. The fact that the group members have social ties as they live closely together, it helps to know the behaviors of everyone in the group (respondents, 2018).

Respondent B points out how sometimes someone can be denied joining the group by the other members. And if the loan officer will ask the other members about the reason behind, the other members will say that they have based their decision on what happened in the past. The person is not trustable and that he/she doesn't respect the social norms e.g. the group members want to have some privacy about what they are doing, about the loans they are contracting, and if there is someone who in the past has shown that attitude of not being able to respect or keep a secret on someone else business. It ends up being a behavior which is not tolerated into the group. Because other members will say that if we allow this person in our group, he/she will display all our projects, plans to people outside the group.

Also, there are people known for being high tempered, he/she can be refused to be admitted in the group. Because the others will be afraid about his/her temper when they will be requesting him/her to pay back the contracted loan. They can say we know him/her, she/he can be aggressive when it comes to pay back the loan.

As for RIM and for the group, social norms play a big role in the success of the lending scheme. RIM respects and follows the choice of the members in the creation of the solidarity group (Respondents A&B).

Respondent C gave an example of one of the scenarios, they based on to know the behaviors of their neighbors. She joined the solidarity group in 2011. But, in the past before joining RIM, in her community they have been supported by a project of the Food and Agriculture of the United Nations. The project was helping them into planting high yields cassava plants and it was structured in a way that they were giving seeds to few people in the neighborhood and the first served at the harvest, they were to give seeds to other who were not served in the first phase. So, after a certain time everyone in the village were supposed to access the cassava seeds. Respondent C raises a point saying "if someone has failed to respect the protocol of free stuff like seeds, how can he or she be trusted when it comes to money. According to her automatically people who have failed to comply to any group activity in the past, they are left out when it comes to RIM's solidarity group, because for her they don't share the same values with the rest of the group.

Respondent A clarifies how important it is for the group members to know each and have social ties. The social ties help in knowing good and bad customers, sometimes they can point out someone who is known for not being honesty. So, if you can't be trusted by group members, you must be left out. Beyond the social networks and mutual trust, for the enforcement of solidarity groups, there are formal contract between RIM and the group members but also every group has its own internal rules to guide them. Respondent A said that RIM urges solidarity groups members to meet once a week and that is for creating bonds between members. He thinks it is as well is important for them to love each for the success of the group.

According to respondent A, Group members are encouraged to have a solidarity pool which has nothing to do with the loans they put in small amount of money which later can be used to support each other like when a member has lost someone or to support each other when someone is having a wedding which is a common in Rwanda Culture. That is for creating the ties of friendship and mutual trust in the group.

Respondent D says normally they form group of 6 to 12 people and she said that when they created their first group, they were 13 and they knew each other. And they have values they follow, like integrity, trust and love among members. And she says that is possible because they live together as neighbors.

Impact in the lives

RIM provides small credit which are payable in a short time. This is to try to make impact in the lives of their customers. Respondent B argues that it helps them to improve the living conditions in the way that there are short time loans with low interest rate and the customers don't have to feel it as a burden like for the long-term loans. And when things don't turn out well, they can quickly adjust their agenda and look for something else. E.g. another business, another crop to plant for the coming season, …

Respondent D declares that her life has improved, she has been able to buy cow which helps her to get organic fertilizer in her farming, to buy a plot, buying clothes, paying school fees and materials for her children. She started with an agriculture loan and now she has improved her farming plus starting a new business of agriculture produces. Respondent C believes the same, she started as a small farmer accessing 227 USD and now after 7 years, she has built her own transformation plant and in the coming years, she is projecting herself very far with more achievements, like buying a car, building more house and so on. Both, Respondent C and Respondent D highlight that all the changes which happened in the life, were originated by the fact that they learnt how to save and to properly use their income.

Respondent A points out that before people were thinking, it was a charity business rather than a financial institution but now they have come to understand how good it is to work with a financial institution. He also says, the solidarity groups help in the change of people lives. He believes that when you are poor automatically you feel excluded to many things but when you come to join other and start to access money, obviously there are changes in your life.

Challenges

The main challenges are from the agricultural loans which depend on weather, climate issue either drought or excess rains affect farmers. When the weather changes most likely the customers fail to pay back, because they pay back after the harvest and sales of their produce.
Respondent D emphasizes that t sometimes it is hard to pay back the loans when the season has been bad.

Respondent A and Respondent B say that one of the ways to overcome the weather issue, has been to work with insurance companies, to insure the agricultural loans. But on the weather issues, the government of Rwanda through its ministry of agriculture has assured them that they are working on a national insurance scheme to support farmers in case of weather calamities.

5. Analysis and discussion

This chapter is structured around sites and situations under which a financial relationship is built. The empirics are analyzed and discussed linked to the theories and research questions.

Built on the existing research on the phenomena of microfinance, a lot has been said on the issue of financial exclusion for the poor, on the issue of effectiveness in terms of ethical behaviors from officers in the work done by MFI and mostly on the poverty reduction mission of MFIs (Srinivasan & Sriram, 2003; Becchetti & Castriota, 2011; Works, 2018). For the financial exclusion problem to be addressed, there must be a financial relationship between MFIs and rural communities. Thus, this study is shedding lights on a how a financial relationship between MFI and rural communities is built in the context of RIM.

The aim of the study is to identify and explain how microfinance institutions build financial relationships with rural communities to enable them access to financial services.

Research Questions

1. What are the characteristics of the market for financial services in the rural areas of Rwanda?

2. What is the value proposition developed by MFI to build financial relationships with customers in poor rural communities?

3. What are the sites and situations where financial relationships are built between MFI and poor rural coomunities

5.1 What are the characteristics of the market for financial services in the rural areas of Rwanda?

According to prahalad (2004), the BOP segment is characterized by poor communities which don’t attract big corporations because they require specific design of products and services. Prahalad (2004) has argued that the poor also has the same desires as the rich to access financial services. The concept of BOP is used to identify and explain characteristics of rural poor communities. This falls in line with the findings from case study. RIM’s market is mostly composed of poor people, who have been financially excluded before joining RIM as explained in the findings of the case study.

Prahalad (2004) further said that people in the BOP segment need quality products and any company that we will customise their needs into product which are affordable will gain profits and at the same time help the poor to alleviate poverty. According to the findings of the case study, rural communities are special, they don’t have valuable assets to present as guaranty, but they are keen to embrace any business model which can help them to move out of poverty. As the case study showed the RIM market has been evolving and that has been possible due to the RIM business model which is inclusive even for the poor in rural areas.

As stated by Nakata & Weidner (2012), businesses meet saturated markets in United States, Japan and Western Europe due to high income customers yet low income customers who are more found in the developing countries which are defined as the bottom of pyramid markets by Prahalad (2012) have been neglected. The study found that RIM is serving a market which has been neglected by traditional financial services business model. Because of their poor conditions they have been not able to build a financial relationship with financial services providers. And the lack of financial relationship is confirmed by the findings of the case study where people have struggled in the past to engage with a financial institution.

Pitta *et al.* (2008) expressed that BOP markets are different of what corporations have been used to. Thus, they will require new techniques and freedom from the said accepted knowledge. Pitta *et al.* (2008) continued and said that companies will have to avoid using the so-called truths as they may not be applicable. As reported by the case study, rural communities and financial services providers like traditional banks have failed to build a financial relationship, because banks stuck on the traditional business model without putting in considerations special conditions of the rural areas.

Based on the argument that if a business is able create jobs and to generate income, the consumption will follow. Microloans are viewed as a solution to self-sufficiency. If, the poor could access small loans and become an income generating person, the BOP consumers will be no longer considered as unattractive but as potential customers. As it has been in the literature, formal traditional banks have failed to avail credit to this market and when it was done, the cost of access was enormous to discourage them (Pitta et al, 2008). The case study found that rural communities are looking for small loans and easily repayable loans. The case study found that rural people have been lacking capital to invest in their farming activities. And the case study pointed out how from small loans, rural based people can invest in income generating projects.

5.2 What is the value proprosition developped by MFI to to build financial relationships with customers in poor rural communities?

The integration of customers into products development and benefit from customer's inputs will decrease the risks of market failures. The BOP market requires a different business model which focuses on cost, good quality, sustainability and profitability, thus firms need to adapt their marketing mix to meet the characteristics of BOP customers (Pitta *et al.*, 2008).

It has been said that rural communities live continuously in situations of poverty and lack of guaranty. According to the findings of the case study, RIM works with people who have been excluded by financial institutions. To integrate them, RIM adapt a marketing strategy which starts from teaching rural communities how to work with MFI, the interviewees called it the financial education. This situation has been experienced by respondent C and D, who used to find complicated to work with financial institution, because they will ask so many things to fulfil before they could get what they wanted or if you managed to work with them, you will lose your properties. This can be linked to the fact that there was no prior initiation on how to manage a loan. From their perspective, it can be attested that they never thought working with a financial institution can be something simpler, safer and easy to attain.

As Pitta et al (2008) argued that to work with BOP market, you need to involve them in the products development phase. RIM acknowledged that rural communities needed microloans products and introduce the group lending. The group lending helps in the management of those small loans and furthermore it is built the social capital label of trust, social networks and norms. RIM wants to work with trusted people as in any other business organization and to determine if a person can be trusted or not. It depends on how the individual lives with other people in the community. Members of the solidarity groups are left out with the responsibility of choosing with whom they want to be with in the solidarity group, respondents pointed out how that involvement limit the failure of the lending schemes.

After the identification of the type of products to offer, it was time to figure out how to distribute them and there was no best way than involving rural communities in products development. RIM designed a lending scheme known as group lending. The group lending removes the guaranty which is required to get loan. As argued by Cassar et al. (2007), there is no way the removal of the guaranty in the group lending can work, if there is no trust among its members. As stated by respondents A and B, RIM leaves the choice of groups members when it comes to create solidarity groups. On one hand, it helps RIM to know well, the people they are building a financial relationship with and on the other hand, it creates an element of ownership for the group's members. This ownership transfer can be justified by the fact that from one way or the other, the group members know each or had already shared something in the past like the case of people who have shared seeds of cassava. Once, again RIM plays on an existing situation where people live together, know each other and share the same social norms. From the findings, it can be argued that RIM works with groups of trustees in the community.

FAO (2013) claimed that people fail to invest in modern farming due to lack of capital and from the findings of the case study, people are sometimes looking for a small loan to buy certified seeds or to buy a cow and get the organic manure. Based on the findings of the study, it has been pointed out how it has been challenging to invest in farming without the access to credit. One can't forget to mention the existence of the agriculture unit within RIM. The agriculture unit provides special financial education when it comes to farmers customers as pointed out in the empirical chapter. But one of the respondents pointed out how agriculture is risky due to its dependence of climate weather. There are times when it is hard for farmers to pay back when the weather has been bad. May be the incorporation of agricultural insurance will help to address this problem. Nourse (2001) suggested that microfinance institutions should not only focus on lending products because there is a need for other products like insurance service for the poor.

(Pitta *et al.*, 2008) recognized that the access to credit and adaptation of the marketing of the marketing mix are the pillars for business model targeting BOP communities. According to the respondents of the study, they needed credit, but they could not figure out the way for accessing the financial services. There was a need of adaptability in the marketing mix of the financial institution on what kind of products to propose to the rural communities. The MFI adopted the group lending products to remove the barrier of the guaranty for rural communities

In the literature, it is argued about the agency problems between the borrower and the lender as it has characterized the MFIs. It was of huge operations costs for MFIs to collect all information on their customers before the disbursement of the loan and to do follow up to confirm that the loan has been used as it was intended. And all those costs regarding the size of the loans, the mathematics could not add up (Hollis & Sweetman, 2001). According to respondents, it would have been hard for an MFI to avail resources for collections of information on the individual customers. One way should have been to put in place a long list of requirements to fulfill. And there is no doubt that it would have discouraged rural communities to work with MFIs. But the existence of social capital labels like trust, social networks and socials norms benefit both MFIs and the rural communities.

According to Elaydi & Harrison (2010) firms which engage with the community to capitalize their hopes and aspirations, grow with the community and result in poverty alleviation. Thus, it is important for Firms which target BOP markets to know why they are entering, what they hope to accomplish and what will be their long run impact in the lives of the community.

5.3 What are the sites and situations and sites where financial relationships are built between an MFI and rural poor communities?

Prahalad (2004) acknowledged: that to serve the low-income segment, it requires a scheme which is designed to tackle the special needs and at the same it requires the involvement of other players like local and central government, financial institutions and NGOs. That partnership of different players helps to create *buying power* which most of the time is lacking in poor countries, secondly it helps *shaping aspirations through product innovation and consumer education*, thirdly, *improving access through better distribution and communication systems* and lastly *tailoring local solutions*.

The case study discovered that RIM uses the existing sites, the church and community work and situations of trust, social norms and social networks to build a financial relationship with rural communities. The MFI uses the sites where many people gather to convey the message about financial services. In rural areas, people meet in different ways, but the common ones as stated by the findings from the case study, are **the church for the Sunday service** and **Cleaning week known as Umuganda**. The Catholic Church being one of the shareholders of RIM, it eases the sharing of information on how to access financial services from an FMI. And because, there are different initiatives encouraging financial inclusion, it is ease for RIM to get a slot and talk about financial services after the cleaning activities (Microfinanza, 2015).

Rural communities live in situations whereby people have social networks (Putnam, 1993), it is easy for people who are present during the time of mobilization by RIM to share the information with their neighbors who were not around, and the information ends up reaching an even a bigger audience. This was emphasized by one of the respondents who could not have got a chance to access financial services if neighbors did not share the information. One can argue that supposed, they did not know her well, to be sure that she is someone who can be trusted or who lives under the society norms. The scenario could have been different, and she could have been left out without the information. The case study found that the financial relationship is enabled by the existing sites. RIM has created a network of branches in the whole country, mainly in rural areas.

The study could understand from the findings of the case study that the rural people have failed to build financial relationships with financial institution, because they were no identified sites nor outlets in their neighbourhood and they will be discouraged by the long distance to reach the outlet in the cities. As argued by Prahalad (2002), the MFI has found better distribution and communications systems within the cultural environments of rural communities.

It can be argued that for MFIs to be able to deliver financial services, they should be able to connect with the local conditions in place and build on the existing institutions to be embedded in countries economy (Wapakala, 2016). This goes in line with the findings of the case study, the traditional financial services model did not see the importance of connecting with rural communities based on the existing situations. Traditional financial institutions wanted to build the financial relationship with rural communities in the same way they engage with urban customers who are educated, do not live in the conditions of extreme poverty and are used to work with financial institutions.

It can be claimed that the traditional model lacked an element of flexibility and innovation to adapt their business model to the situations of rural communities. From the findings of the case study, the MFI decided to use the established sites of the church and the community works to connect with the rural communities and was not discouraged by the situation of lack valuable assets to constitute the guaranty. And this is due to the existence of situations of trust, social norms and social networks within the rural communities. one can discuss that there is no way the value proposition which in this case is financial service can be presented to the customer (rural communities), if there are no established ways of how the first contact with the customer is going to happen. It can be claimed that the problem of financial exclusion is still existing as explained by Leonhardt & Chu (2017) because financial institutions did not put emphasis on how to create the first contact with rural communities.

5.4 Critical Discussion from analysis

Through the access to microcredit, beneficiaries of microfinances were believed to be empowered to actively participate in the development of their localities through income generating small businesses (Maes and Foose, 2006). It has been confirmed by the respondents on how they have started to view their lives from another perspective. It is interesting to see how the access to small loan can improve people’s livelihood. Maybe it can be argued that the reason behind is the credit which goes with financial education and advices on how to manage their farming activities.

One the respondent does not define herself as poor anymore. She sees now many opportunities from having a financial relationship with MFI. Rural communities have special ways of living together through their social networks. It can be a positive influence on the members of the community who have not yet decided to join the group lending and who are still financially excluded. There is perhaps no better marketing than being able to see the achievement of those who were able to access loans and move up economic class.

Small loans create a financial relationship which has been missing for a long time. On one hand there are rural communities who are financially excluded. On the other hand, there is MFI which has a value proposition but looking also for a value in return. In my opinion, there are no better ways of connecting the two than working together.

6. Conclusions

This chapter draws the conclusions from the findings of the study. The conclusions answer the aim of the study which is to identify and explain how microfinance institution build financial relationships with rural communities to enable them access to financial services. The chapter ends with further research suggestions.

In regards to the general problem of financial exclusion faced by rural communities, some initiatives have been taken by MFIs to build a financial relationship with rural communities.
The exisitng literature discusses the work of MFIs as a new business model to avail financial services to poor rural communities. But as the issue of financial exclusion is still existing as shown by the world bank group (2014), more empiricial researchs on the engagement of MFIs with rural communities are needed. This study provides a better understanding of how microfinance institutions build financial relationships with rural communities to enable them access financial services as a contribution for the development of the research field.

Findings from the study shows that the financial relationship between an MFI and rural communities develops in sites and situations where trust and relationship can be built. The sites identified in this case study are those sites normally used by rural communities in their day to day life. In rural areas of this case study people often meet in the church or the community cleanings works. Thus, these two sites are found valuable for the work of an MFI which is seeking to build financial relationships with rural communities. After the identification of the sites as a starting point of engagment, there are situations of trust, social networks and social norms which are present in the rural communities and they enable the financial relationship to be create and maintained.

The MFI is able to present a value proposition that offers a financial education and group lending product to accord with the characteristics of the rural community where people are poor and have little information on how to work financial institutions and gain value in return from working with poor rural communities. A situation which would not be possible without the enabling factors.The study showed that the enabling factors like trust, social networks and social norms are needed because other means beyond having valuable assets as a guaranty to access financial services are to be used for poor communities in rural areas.

From the analysis of the case study, it can be concluded that financial relationships between an MFI and rural communities develops in sites that enables such relationships to be built. These sites are identified by the MFI to create presence and outreach, i.e. not only by establishing an office but to be mobile and engage with local routines and traditions. Thus, the identifications of sites and situations present in rural areas drive to the creation of a trusted financial relationship. The built up of the financial relation between the MFI and rural communities answers the main of this study as a way of enabling rural communities to access financial services.

This study has looked at one single case in its own context and the main findings were relevent to the aim of the study. And because the identified sites and situations were connected to the case company RIM, it is important to highlight that sites and situations are specific in the context of RIM.

This study concludes with a couple of suggestions for further research; the first is to look at different cases to gain more insights from different contexts which can help to identify more sites and situations for the built up of financial relationships between MFIS and rural communities. Secondly, as highlighed by the farmers during interviews, due to the challenge of climate risks, further study can be developped on the design of a value proposition that includes crop insurance for farmers against weather whims.

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Appendix 1

The interview guide with Réseau Interdiocésain de Microfinance employees

Introductory questions

- Can you tell me a bit about your organization and your position within the organization?
- What motivated the creation of Réseau Interdiocésain de Microfinance (RIM)?
- I know you have an agriculture unit with RIM, what did motivate its creation?

Market characteristics

- How can you describe the rural market?
- Does it present any particularity?
- When did you start serving rural market?
- Is it a market which has potential?

Value proposition

- What kind of products do you present to rural communities?
- Do you ask for a guaranty for customers to access loans?
- How do you design your products for rural areas?
- What do you offer which is unique to microfinance institutions?

Sites and situations

- How do you reach your customers?
- What factors do you base on to choose your customers?
- How do you build trusted relations with your customers?
- How do you group people in the solidarity groups?

Challenges and Impact

- What challenge do you encounter while serving rural communities?
- Do you see any impact from working with RIM for rural communities?

Appendix 2

The interview guide with Réseau Interdiocésain de Microfinance customers

Introductory questions

- Can you tell me a bit about yourself and what you do?
- Where do you live?
- When did you join RIM?
- Why did you join RIM?

Market characteristic

- Can you tell me what was the situation in terms working with financial institutions before joining RIM?

Value proposition

- What kind of products do you have access to?
- Are you asked to present a guaranty to access loans?
- What do you get which is unique from microfinance institutions?

Sites and situations

- How does RIM reach to you?
- How did you hear about RIM for the first time?
- How do you group your selves into solidarity groups?
- How do you build trusted relations within the solidarity groups and with RIM?

Challenges and Impact

- What challenge do you encounter in your business?
- Has the access to financial services impacted your life?