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The Impact of Microfinance on Poverty Alleviation in Burundi

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Abstract : *The article offers valuable insights into the complex relationship between microfinance and economic development, highlighting both the opportunities and challenges associated with leveraging microfinance as a tool for poverty alleviation, especially in Burundi. Microfinance is an important of financial sectors in Burundi. It refers to the provision of financial services, such as loans, savings, and insurance, to low-income individuals and small businesses who may not have access to traditional banking services. In Burundi, microfinance institutions play a crucial role in providing financial services to the poor.*

According to the World Bank's Global Findex Database, in 2017, about 12% of adults in Burundi reported having an account with financial institution. This figure is relatively low compared to other countries in the region.

The study conducted econometric analysis to demonstrate the statistical significance of various variables. These variables included household income level, distance to MFIs, duration of credit usage, credit amount, education level, credit-plus services, ownership, and market availability. The first regression model showed that all these variables had a significant impact.

Furthermore, Demirgüç-Kunt, and Morduch (2018) examine the role of microfinance in fostering financial inclusion and discuss the potential for complementary financial services, such as savings and insurance products, to enhance the effectiveness of microfinance programs. They emphasize the need for a holistic approach that combines microfinance with supportive policies, infrastructure development, and capacity building to maximize its impact on poverty alleviation.

The findings indicated that despite facing challenges such as high transaction rates and limited funding, microfinance credit has played a crucial role in alleviating poverty among poor and low-income families in Burundi.

Therefore, the study recommends that government should increase government support, and conducive working environments should be provide to ensure microfinance institutions reach as many less privileged individuals as possible to raise their economics status (ESJ, 2022).

Keywords: *Microfinance Institutions (MFIs), Poverty alleviation, income groups, financial inclusion, developing country, context of Burundi.*

I. Introduction

Access to financial services in Burundi is limited due to various factors such as low levels of financial literacy, lack of infrastructure, and inadequate regulatory frameworks. Many individuals in Burundi lack basic financial knowledge and are therefore unable to understand the importance of financial services. Furthermore,

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the financial infrastructure of the country is insufficiently developed, leading to challenges in accessing financial services for the population. Moreover, the regulatory framework in Burundi lacks strength, hindering the growth of financial services and posing difficulties for banks and other financial institutions operating within the country. A report from the United Nations Capital Development Fund (UNCDF) reveals that young individuals in Burundi encounter numerous challenges when it comes to obtaining financial services. These obstacles encompass inadequate financial knowledge, restricted credit accessibility, and a dearth of collateral.

The Bank of the Republic of Burundi (BRB) report indicates that in 2021, the microfinance sector in Burundi consisted of 65 Micro Finance Institutions. These institutions comprised 20 savings cooperatives, 22 microfinance companies, and 33 Community Financial groups. The number of service points has increased to 701, compared to 492 service points in 2017. It is important to note that there were 45 active microfinance institutions in 2017. The institutions with the highest number of service points include the National Federation of Coopec of Burundi (FENACOBU), National Post Office (RNP), TURAME, Cooperative Fund of Savings and Mutual Credit (CECM), and Union for Cooperative and Development (UCODE).

These institutions offer a range of financial products and services, including microloans, micro savings, and micro insurance. Microloans are typically small loans that are used to start or expand a small business. Micro savings allow individuals to save small amounts of money regularly, while micro insurance provides protection against unexpected events such as illness or death.

By Karlan and Zinman (2011), focuses on the impact evaluation of microcredit programs on poverty alleviation. The authors employ a randomized control trial methodology to assess the effectiveness of microcredit in improving the lives of borrowers.

The study finds that access to microcredit has mixed effects on poverty reduction. While microcredit programs can positively influence certain aspects of borrowers' lives, such as increasing business investment and consumption, the overall impact on poverty levels is limited. The authors highlight that the success of microcredit programs depends on various factors, including the design of the program, borrower characteristics, and the broader socio-economic context.

The objective of this study is to evaluate the capability of Microfinance institutions in Burundi to facilitate the availability of essential financial services for low-income, lower middle income, upper middle income and high-income populations.

The study aims to provide insights into the distributional aspects of microfinance loans in Burundi, with a focus on understanding how MFIs serve individuals across different income levels and whether there are any disparities that need to be addressed for promoting more inclusive and equitable access to microfinance services in both rural and urban communities. Additionally, it aims to explore the obstacles hindering their usage. To address these research inquiries, we rely on data collected between 2017 and 2021 by Institute of Statistics and Economic Studies of Burundi, which was conducted by Bank of the Republic of Burundi (BRB).

1.1 Research questions

To ensure the appropriate approach to the task, several questions have been formulated to ascertain the true benefits of MFIs in promoting financial inclusion in Burundi:

(1) How does the distribution of microfinance loans vary among different income groups (low-income, lower middle income, upper middle income, and high-income) in Burundi?

(2)Identify any disparities or inequalities in loan allocation among income groups and explore the potential reasons behind these differences within the context of Burundi.

(3) Compare the average loan amounts received by individuals in different income groups to identify potential variations in loan sizes.

1.2 Research hypothesis

Microfinance institutions (MFIs) in Burundi exhibit disparities in loan allocation among different income groups, with a higher likelihood of low-income individuals receiving smaller loan amounts compared to their higher-income counterparts. Considering the aforementioned, several assumptions have been formulated:

(1) Analyze the factors influencing loan allocation decisions by MFIs, such as income levels, creditworthiness, collateral requirements, or other relevant criteria within the context of the areas.

(2) The services provided by MFIs in Burundi represent a viable solution for enabling financial inclusion for all individuals.
(3) Assess the interest rates applied to microfinance loans for each income group and examine whether there are any significant differences.

1.3 Research objectives

The objective of this study is to examine the distribution of microfinance loans among different income groups granted by microfinance institutions (MFIs) in Burundi and to identify any disparities or inequalities in loan allocation for both rural and urban communities.

This research objective aims to investigate and analyze how MFIs in Burundi allocate loans to individuals across various income categories.

In particular, the following specific objectives will be pursued:

1. Evaluate the effectiveness of microfinance institutions in Burundi in providing access to essential financial services for individuals with income groups.
2. Analyze the factors that influence the utilization of services offered by microfinance institutions in rural areas (specifically, semi-urban regions) and investigate the barriers to their usage.
3. Investigate the utilization of digital financial services as a means to facilitate access to microfinance institutions for all customers in Burundi.

II. RESEARCH METHODOLOGY

This research study aims to investigate the relationship between income levels (low-income, lower middle income, upper-middle-income, and high-income) and loan accessibility in microfinance institutions in Burundi. The research methodology involved the utilization of data collected from the Institute of Statistics and Economic Studies of Burundi, which was conducted by the Bank of the Republic of Burundi between 2017 and 2021.

In this research study, interviews and focus group discussions were conducted in the provinces of Bujumbura, Gitega, and Rumonge in Burundi. The interviews and discussions involved a total of 120 individuals aged 20 years and above. These individuals were divided into four focus groups, with each group consisting of 30 participants. The purpose of these interviews and discussions was to gather insights and perspectives on loan accessibility in microfinance institutions based on income levels (low-income, lower middle income, upper-middle-income, and high-income) within these provinces.

The variables of interest in this study were the income levels (low-income, lower middle income, upper-middle-income, and high-income) and the corresponding loan amounts that each income level can obtain. The minimum and maximum loan amounts were expressed in dollars. To measure these variables, structured questionnaires were utilized to collect quantitative data, while qualitative discussions provided additional insights. Descriptive statistics, including means, standard deviations, minimum, and maximum values, were computed for each income level and loan amount to analyze their distribution and variability.

Throughout the research process, ethical considerations were strictly followed to ensure the confidentiality and well-being of the participants. However, it is important to acknowledge potential limitations, such as self-reporting biases and limited generalizability due to the specific context and sample selection.

The findings from this research, which adopted a mixed-methods approach, contribute to understanding the relationship between income levels and loan accessibility in microfinance institutions depending on the context of Burundi. By incorporating the income levels as variables of interest and considering the loan amounts in dollars, this study provides valuable insights into the impact of microfinance on different income groups' access to loans and its potential influence on poverty alleviation and economic development in Burundi.

III. DATA ANALYSIS METHODS

The following analysis examines the loan granted by Microfinance Institutions (MFIs) in Burundi. It focuses on four income categories: Low-income, Lower-middle-income, Upper-middle-income, and High-income. The data represents the loan amounts in dollars (USD) and covers a specific period (assuming 1 USD equals 2000 BIF). The analysis aims to provide insights into the descriptive statistics, coefficient of variation, and proportions within different standard deviations for these variables. The findings shed light on the income distribution and the relative variability within different income categories in Burundi's microfinance sector.

IV. RESULT

4.1 Table 1: Descriptive Statistical Analysis of Results

Variable	Observation	Min	Max	Mean	Standard deviation
Lowe-income	30	50	1000	552.633	258.142
Lower middle income	30	1000	4990	2995.8	1064.578
Upper middle income	30	5000	9990	7495.2	1457.736
High-income	30	10000	15000	12500	1767.767
Micro loans					

Source: primary data processed 2023

Interpretation: The data reveals interesting patterns in loan amounts across different income categories in Burundi.

- Low-income: The low-income category has a relatively lower mean loan amount of $552.633, with a considerable standard deviation of $258.142. The loans granted in this category range from $50 to $1000.
- Lower middle income: The lower-middle-income category shows a higher mean loan amount of $2995.800, indicating increased access to loans compared to the low-income category. The standard deviation of $1064.578 implies a moderate level of dispersion in loan amounts. The loans granted in this category range from $1000 to $4990.
- Upper-middle-income: The upper-middle-income category exhibits a further increase in the mean loan amount, reaching $7495.200. This suggests a higher level of financial capacity and access to larger loans for individuals in this category. The standard deviation of $1457.736 indicates a moderate level of dispersion. The loans granted range from $5000 to $9990.
- High-income: The high-income category displays the highest mean loan amount of $12500, indicating a significant financial capacity and access to substantial loan amounts. The standard deviation of $1767.767 suggests a moderate level of dispersion. The loans granted in this category range from $10000 to $15000.

Overall, the analysis highlights the increasing loan amounts as we move from lower-income categories to higher-income categories. It signifies a progressive improvement in financial capacity and access to loans among individuals in Burundi.

Table 2: Descriptive statistics with the coefficient of variation (CV) calculated for each variable

Variable	Observation	Min	Max	Mean	Standard deviation	Coefficient of variation (%)
Lowe-income	30	50	1000	552.633	258.142	46.69
Lower middle income	30	1000	4990	2995.8	1064.578	35.55
Upper middle income	30	5000	9990	7495.2	1457.736	19.45
High-income	30	10000	15000	12500	1767.767	14.14

Source: primary data processed 2023

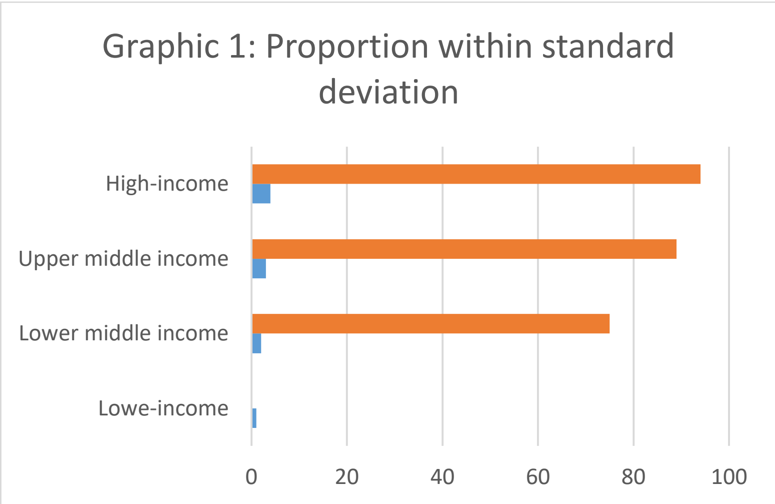
The coefficient of variation provides a measure of relative variability or dispersion of each variable, taking into account the magnitude of the mean. A higher coefficient of variation indicates higher relative variability or dispersion in the data. The coefficient of variation demonstrates the varying levels of variability in loan amounts across the income categories, with higher-income categories exhibiting relatively lower variability compared to the mean loan amount. It is important to note that these findings are based on the provided dataset and assume a fixed exchange rate of 1 USD to 2000 BIF.

4.3 Table 3: Proportion within k standard deviation

Variable	k	Proportion within k standard deviation (%)
Lowe-income	1	0
Lower middle income	2	75
Upper middle income	3	89
High-income	4	94
Micro loan		

Source: primary data processed 2023

To calculate the proportion of items within k standard deviations of the mean using the formula (1 - 1/k^2), you need to determine the value of k and substitute it into the formula.
Determine the value of k: Choose a specific value for k, which represents the number of standard deviations from the mean consider.



4.4 Significance of Micro loans

The majority of individuals residing in developing nations such as Burundi are comprised of low-income populations. In order to enhance their overall welfare, these disadvantaged individuals require access to banking and financial resources that can potentially help them improve their socio-economic circumstances. Hence, it is crucial to establish an effective financial approach specifically tailored to their needs, which would be a significant advancement and a clear priority for promoting inclusive socio-economic progress. Microfinance serves as one of several components and implementation strategies within an inclusive financial system in developing countries.
The Poor and Their Money: An Essay About Financial Services for Poor People" by Stuart Rutherford, discusses the importance of financial services for individuals living in poverty. The essay emphasizes that poor people,

like anyone else, need access to financial tools and services to manage their money effectively and improve their economic situation.

Rutherford highlights the unique financial challenges faced by the poor, including irregular income streams, unpredictable expenses, and limited savings. He argues that traditional financial institutions often fail to meet the needs of the poor due to their rigid requirements and high transaction costs. As a result, the poor rely on a variety of informal financial arrangements and strategies to cope with their financial circumstances.

The functional basis of Microfinance lies in its capacity to provide funds like small loans to solidarity groups that include people with no access to traditional banking services to enable them to develop income-generating activities. These micro-credits to both individuals and groups of people allow recipients to undertake micro-projects and create small businesses or production micro-enterprises.

The activity generated by beneficiaries of such loans results not only in the creation of direct employment for themselves but also indirect employment for the production chain related to their activities. If the investment obtained through microcredit is substantial enough to start a small production unit, the beneficiary may recruit direct labor to assist him in his activity. Financing micro-projects and small businesses through small loans granted via Microfinance thus permits to stimulate economic activity and to create employment directly or indirectly in a community.

By generating activity, micro-credits granted through Microfinance create employment, which benefits the development of the entire community (Sundaresan, 2008; Johnson and Rogaly, 1997; Yunus, 2003; Ahmed, 2004).

V. The empirical model

In order to examine the impact of microfinance in reducing poverty, we assess the operations of MFIs on a national scale. MFIs, which can take the form of both banks and non-bank financial institutions, may prioritize profitability and demonstrate effectiveness in extending financial services to marginalized communities through loans. Moreover, MFIs might be particularly effective in diminishing poverty within certain regions or income groups. Therefore, we conduct basic regression analyses at the country level, considering factors such as institutional setup, regional disparities, and income levels, to assess the influence of microfinance on a multidimensional poverty index.

Ûi= ß0+ ß1 L.Income+ ß2 L.M Income + ß3U.M Income+ ß4H.Income (1)

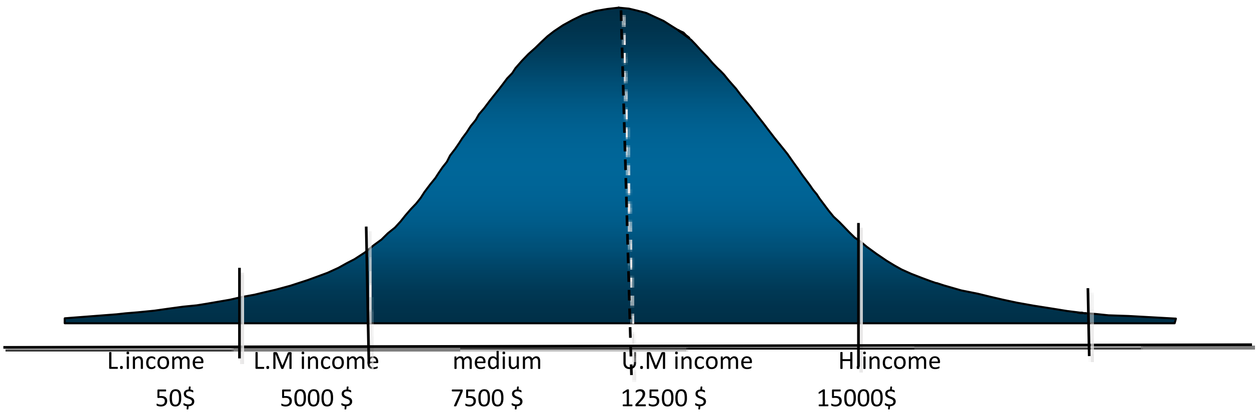
H.Income= ß1L.income + ß2L.M Income+ ß3U.M Income (2)

L.Income= ß4H.Incom- ß2U.M Income- ß3L.M Income (3)

In this equation, Ûi represents the variable use of formal financial services by an individual. It takes the value 1 if the individual uses formal financial services and 0 if they do not. The equation suggests that Ûi is determined by the individual's income level, which is categorized into four groups: L. Income (lower-income), L.M Income (lower middle income), U.M Income (upper middle income), and H.Income (high income). The coefficients ß1, ß2, ß3, and ß4 represent the influence of each income group on the use of formal financial services. The intercept ß0 represents a constant term that affects the overall likelihood of using formal financial services.

The lower-income category represents the smallest loans granted by MFIs, whereas the high-income category represents the largest loans granted by MFIs. In this formula, we use the mean of the quantiles for the lower middle-income and upper middle-income groups, denoted as (p/100)n, to determine their values.

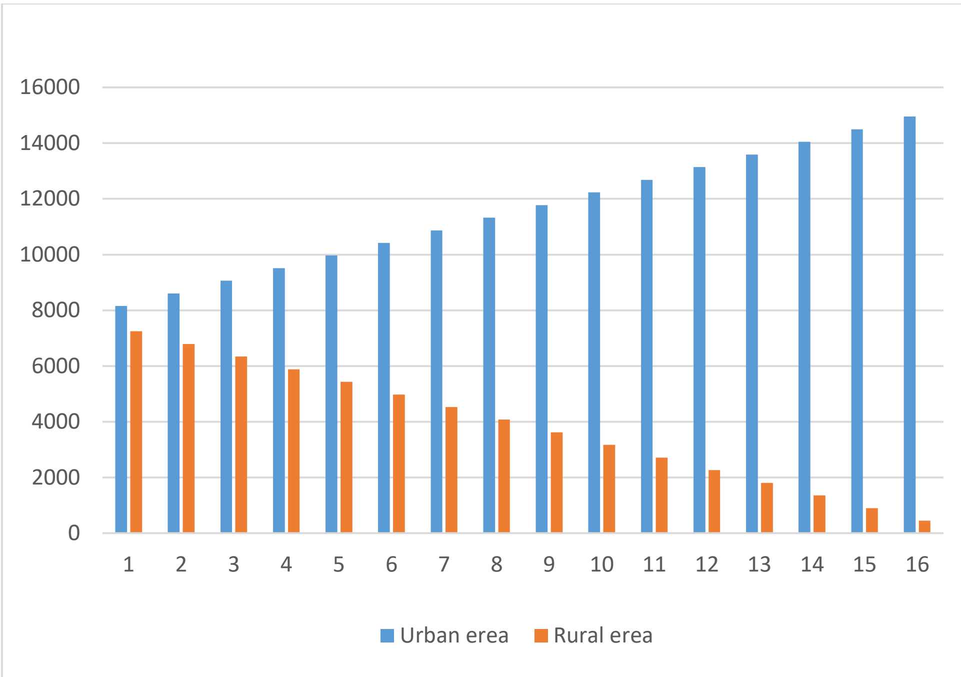
These equations form a system that allows for the analysis of how different income groups relate to each other in terms of using formal financial services. The coefficients (ß0, ß1, ß2, ß3, and ß4) provide information about the strength and direction of these relationships.



All most of (94%) of the items will be within fourth standard deviation of the mean.

It means that 90% of this date are less than or equal to 12500$ whereas 10% are larger than or equal to 12500$.

Graphic2: Evolution of the number of credit requests by area



According to a report by the Microfinance Information Exchange (MIX), the percentage of adults in rural areas of Burundi who use microfinance services is higher than that of adults in urban areas. The report states that as of 2019, the percentage of adults in rural areas who use microfinance services was 8.3%, while the percentage in urban areas was 6.1%. Here is an explication description of the comparison:

1. Access to Formal Banking:
 - Rural Communities: The bar representing rural communities might show a lower percentage of access to formal banking services. This could indicate limited availability of brick-and-mortar banks and financial institutions in rural areas.
 - Urban Communities: The bar representing urban communities might show a higher percentage of access to formal banking services. This could represent the presence of banks and financial institutions in urban areas, which are typically more developed and have better infrastructure.
2. Mobile Money Usage:

- Rural Communities: The bar representing rural communities might show a lower percentage of mobile money usage. This could indicate a slower adoption rate of digital financial services due to factors such as limited access to mobile phones, lower digital literacy levels, and inadequate network coverage in rural areas.
- Urban Communities: The bar representing urban communities might show a higher percentage of mobile money usage. This could reflect a greater adoption of digital financial services due to better access to mobile phones, higher digital literacy levels, and wider network coverage in urban areas.

3. Informal Financial Services:
- Rural Communities: The bar representing rural communities might show a higher percentage of reliance on informal financial services, such as community-based savings groups or informal lenders. This could be due to limited access to formal financial institutions.
- Urban Communities: The bar representing urban communities might show a lower percentage of reliance on informal financial services, as urban residents have better access to formal banking services and digital financial solutions.

Microfinance in rural areas of Burundi face several challenges, but it is still an important source of financial services for rural communities. Some of the challenges faced by microfinance institutions in rural areas include:

1. Limited infrastructure: many rural areas in Burundi lack basic infrastructure, such as roads, electricity, and communication networks. This makes it difficult for MFIs to reach customers and provide financial services.
2. Low levels of financial literacy: many people in rural areas have low levels of education and limited knowledge of financial management. This makes it difficult for MFIs to educate customers about financial products and services.
3. Limited collateral: many rural customers lack the collateral needed to secure loans from traditional banks, making it difficult for MFIs to provide loans.

VI. Microfinance, are relatively new phenomena

The analysis of access to financial services in Burundi reveals the following key elements:

- Survey reveals major gaps in financial education of Burundian population comfort. Only 10% of respondents say they are well informed about the different services offered on the market.
- Compared to the population, the number of services points is relatively higher in urban communities and relatively fewer than rural areas or semi-urban area. The vast majority of municipalities have at least one point of access to formal financial services.
- Outside of the urban area, the distance from service points and unavailability of motorized transportation are important factors impeding access to financial services.
- The main obstacles to opening an account are the lack of cash income, the inability to save and the difficulty in collecting the required minimum amount.
- The main barriers to accessing credits are related to monetary poverty and lack of information.
- Finally, financial institutions need to do more to make their services accessible especially in rural areas.

The increase in the cost of living and the deterioration of purchasing power due to the war and the economic crisis have made it increasingly difficult for people to survive on regular wage incomes. At the same time, formal banking services have become increasingly inaccessible.

The explosion of microfinance can therefore be interpreted as an attempt to fill a financial intermediation (Han R. and Melecky M., 2013).

The analysis of survey responses regarding socio-demographics revealed that men have a higher level of knowledge about financial institutions compared to women and youth. Additionally, urban areas exhibit a greater prevalence of this knowledge compared to rural areas. The level of knowledge also demonstrates a significant increase in correlation with the respondent's education level and income. Consequently, the survey sheds light on the existing gaps in financial education among the population of Burundi.

VII. Financial Inclusion

The concept of inclusion is broad and multidimensional. First, the permanent access of the adult population to a range of financial products and services (i), offered by formal and permanent financial institution, governed by adequate regulation, (ii) diversified, affordable and adapted to the needs of population, (iii) used by it for contributing to the improvement of its socio-economic living conditions.

The paper explores various dimensions of financial inclusion, including access to formal banking services, availability of credit, use of digital financial services, and participation in savings and investment activities. It examines how these dimensions of financial inclusion affect key economic indicators such as GDP growth, poverty reduction, income inequality, and employment.

According to Nsabimana and Muturi (2018) review empirical studies from different countries and regions to assess the impact of financial inclusion on economic growth. They discuss the positive linkages between financial inclusion and economic development, highlighting that access to financial services can enhance entrepreneurship, facilitate investment, and promote financial stability.

As stated by Demirgüç Kunt and Klapper (2013), access to financial services must be distinguished from their use. They consider that the use of financial services is two-fold in relation to the financial market. Contrary to common usage, the authors consider that access to financial services refers strictly to the supply side of financial institutions.

As mentioned by Han and Melecky (2013), the ultimate aim of financial inclusion is to provide everyone with the opportunity to improve their daily lives and living standards by increasing their financial stability, with the ultimate goal of sustaining this financial stability to prevent future uncertainty for individuals.

The survey measured the following four dimensions of financial inclusion in Burundi; the provision of financial services, access to financial services, the effective use of financial services and the quality of the financial services offered.

In summary, the Burundian population uses informal financial systems more than financial institutions, if it is to save, borrowing or transferring funds. The use of informal systems can result from many factors including the greater accessibility of these systems, lack of education and knowledge of financial institutions, the remoteness of the institutions services points and actual or perceived barriers to accessing their services, as well as other socio-cultural factors.

As indicated by Fungáčová and Weill (2015), economic development is linked to the financial activity of a country and its population. These authors consider that financial inclusion which they define, as the use of formal financial services is a crucial element of economic growth. They structure the analysis of financial inclusion around three main services, namely (i) the possession of a microfinance account in a formal financial institution, (ii) recourse to savings in a formal institution, and (iii) the recent use of a micro-credit. In conclusion, the paper highlights that promoting financial inclusion can contribute to sustainable economic growth and poverty reduction. It underscores the need for policy interventions and strategies to expand access to financial services, improve financial literacy, and foster an enabling environment for inclusive finance.

VIII. Challenges of Microfinance and MFIs

The challenge of financial institutions is to inform and convince the public of the advantages of modern financial services over informal or traditional systems. In that case, the MFIs encounter include lack of product diversification, late or delayed loan repayments, high interest rates, high transaction costs, poor outreach, lack of access to microfinance facilities for urban poor/low-income families, insufficient funding, demand and supply gaps in supporting microcredit and micro savings, lack of documentary evidence of credit-worthiness, and repayment tracking problems. Some of these challenges can be overcome by ensuring more MFI products and services diversification (Nasir, 2013; Das et al., 2011).

Table 4: Kind of credit granted by MFIs in Burundi

Product	Number of institutions	Minimum–maximum amount ($)	Durations	Interest rate and commission
Discovered	10	50-5000	1to12 months	0% to 8%
Line of credit	1	50	12months	
Salary advances	3	Max 50% of month salary	1month	Annual interest rate of 6%
Personal credit	7	250-17500	Max 3 years	8%
Ordinary credit	4	25-4000	1month to 4years	9%
Express credit	2	Max250	3 to 12month	12%
Automatic credit	2	-	1to 12month	15%
Commercial credit	12	50-7500	1month to 3 years	16%
Agricultural credit	12	50-5000	Max 2years	18%
Credit warranty	3	25-4000	1 to 6months	21%
Solidarity credit	11	25-5000	1to 12months	25%
Credit artisan	2	Max2500	-	36%
Credit equipment	7	250-5000	1to 3years	48%
Credit for transformation	1	Max 2500	-	Discovered
Housing credit	3	Max 5000	1 to 3 years	4%/month
School credit	3	25-200	1 to 6months	6%/month
Health care credit	2	25-2500	Max 4years	10%/month

Source: Bank of the Republic of Burundi 2017 and the exchange rate was 1$=2000BIF

MFIs have developed innovative solutions to provide financial services to rural communities. For example, some MFIs have established mobile banking services that allow customers to access financial services using their mobile phones. Other MFIs have developed group lending models, where several individuals in a community come together to guarantee each other's loans.

To address these challenges, some MFIs in Burundi have developed programs specifically targeted at young people. For example VisionFund Burundi has youth program that provides financial education and access to credit for young entrepreneurs.

Furthermore, the paper discusses the challenges faced by microfinance institutions in balancing their social mission with financial sustainability. Morduch highlights the need for appropriate regulation, monitoring, and evaluation to ensure responsible and effective microfinance practices.

The ensuring reasonable interest rates on microloans, more involvement of angel investors, use of high integrity as a consideration for clients, group lending, inclusion of all of the poor regardless of location and innovations such as use of reasonable mobile phone loans among others. MFIs have for the most part morphed into "baby" commercial banks, with many of the formal banking approaches that Dr. Yunus' idea of microfinance frowned upon. This commercialization of MFIs has led to these institutions, in some cases, actually becoming an impediment to sustainable socio-economic growth. This in turn negates efforts to eradicate poverty for the poor in Africa and the East African Community (EAC) region (Muithya et al., 2021).

Overall, microfinance plays a critical role in providing financial services to rural communities in Burundi and also continue to new ways to overcome the challenges they face. Innovations are a continuous process were enterprises and individuals seek new and improved products and services, processes, and organization structure in order to reduce costs, better satisfaction of customer demand, yield greater profits for themselves and most importantly attaining and establishing customer satisfaction.

IX. The use of digital financial services in Burundi

The use of digital financial services in Burundi was gradually growing, although the adoption and penetration rates were relatively lower compared to some other countries. Digital financial services encompass a range of services, including mobile banking, mobile money, digital wallets, and other electronic payment solutions. Here are some key points regarding the use of digital financial services in Burundi:

1. Mobile Money: Mobile money services, such as mobile banking and mobile payments, have gained popularity in Burundi. Telecommunications companies, in partnership with financial institutions, have launched mobile money platforms that enable users to perform transactions, including money transfers, bill payments, and airtime purchases, using their mobile phones. Services like Econet Leo Money, Ecocash, mKesh, and Lumicash are among the prominent mobile money platforms in Burundi.
2. Agent Networks: To enhance accessibility, mobile money providers in Burundi have established extensive agent networks across the country. These agents act as intermediaries, facilitating cash-in and cash-out transactions, allowing individuals to deposit or withdraw cash from their mobile money accounts at authorized agent locations. Agent networks contribute to expanding the reach of digital financial services, particularly in rural areas where formal banking infrastructure may be limited.
3. Government Initiatives: The government of Burundi has shown interest in promoting digital financial services to enhance financial inclusion and improve efficiency. Efforts have been made to digitize government payments, such as salaries, pensions, and social welfare benefits, to reduce the reliance on cash-based transactions and increase the use of electronic payment systems.
4. Financial Inclusion Challenges: While digital financial services have the potential to enhance financial inclusion, there are challenges to overcome in Burundi. Factors such as limited access to mobile phones, low levels of digital literacy, and inadequate network coverage in some areas may hinder the widespread adoption of digital financial services, particularly among marginalized populations and in rural communities.
5. Regulatory Environment: The Central Bank of Burundi plays a crucial role in regulating and overseeing digital financial services in the country. It sets guidelines and requirements to ensure the security, stability, and integrity of digital financial transactions. Regulations aim to protect users, prevent fraud, and foster trust in digital financial services.

X. Conclusion

Overall, microfinance has played a significant role in driving economic growth and reducing poverty in Burundi. By providing access to financial services, microfinance institutions (MFIs) have empowered individuals and small businesses, resulting in increased economic activity and improved livelihoods.

To ensure successful financial inclusion, it is crucial for all stakeholders, including the government, regulators, financial service providers, and consumers, to collaborate effectively in implementing the national strategy for financial inclusion. This involves increasing access through equitable geographic coverage of service points, improving the conditions of using financial products and services, implementing consumer protection measures, and strengthening the sustainability of financial institutions to promote financial inclusion among the target population.

Government agencies and the management of these institutions should actively prepare for the upcoming common markets to prevent the potential collapse of MFIs in the face of regional or continental competition. It is important to consider the evolving digital financial landscape and embrace digitalization services to remain competitive and enhance performance. MFIs, regardless of their size, should reevaluate their business models and organizational structures to leverage digital technologies. It is crucial for the Bank of the Republic of Burundi to adapt the legal and regulatory framework to facilitate innovation in the provision of financial services by approved institutions. This includes exploring new distribution models such as correspondent banking and mobile transactions to expand access to financial services for rural populations.

Additionally, MFIs should adopt credit methodologies that reduce the reliance on traditional collateral in the credit granting process. For example, offering small credit amounts to rural customers can enable them to purchase inputs, engage in income-generating activities, or start small businesses. Considering the significance of the agricultural sector in the national economy, there is a need to develop financing mechanisms and tailor financial products and services specifically for rural areas, particularly for agricultural activities. This will help address the current underfunding of the agricultural sector and promote its growth and development.

It is important to note that the recommendations provided are based on the available information up until my knowledge cutoff in September 2021. To stay updated on the status and trends of digital financial services and other relevant developments in Burundi, it is recommended to consult recent reports, news articles, publications from reputable sources, or engage with local financial institutions and regulators.

XI. REFERENCES

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