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## RESEARCH ARTICLE

### Microfinance Services as a Key Driver of Financial Inclusion in Rwanda. A Case Study of Umurenge Saccos in Rulindo District in Rwanda from 2009-2013

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#### Abstract

The present research is entitled Microfinance as a key factor for financial inclusion, a case study of Umurenge Sacco of Rulindo District in Northern Province. The main objective of the study is to examine the effects of microfinance on financial inclusion. The objectives of the study were to identify the role played by Umurenge SACCOs of Rulindo District in promoting financial inclusion, to identify the relationship between physical location of SACCOs and financial accessibility, to assess the effect of financial literacy on financial accessibility, to examine the role of financial services accessibility and different channels used to offer financial services to the population. The research was conducted in SACCOs located in Rulindo District. To examine the effect of Umurenge SACCOs on financial inclusion, the researcher used descriptive statistics to analyze the data collected from the field using frequencies, tables and figures to show the relationship between the independent and dependent variables. The target population of the study constituted of all 17 Umurenge SACCOs in Rulindo District. The 4 Umurenge SACCOs which comprised the sample size were based on the Umurenge SACCOs that have registered the highest percentage of adult people in their respective interval range. The research instruments used are questionnaires to be administered to 64 employees and members of Umurenge SACCO. Literature was reviewed to enable the researcher to explicitly understand microfinance and financial inclusion; and to understand the theoretical links between microfinance and financial inclusion. The results from this study will help the decision makers to know the benefit and impact of Microfinance on financial inclusion in general and the impact of Umurenge Sacco on financial inclusion in particular. The research recommendations will help the management of Umurenge SACCOs to improve the quality of services to their clients in order to satisfy them and to provide a greater contribution to their clients and to their development. The study results also will contribute to the academic literature on the links between microfinance and financial inclusion.

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#### Introduction

Microfinance is a facility that makes it possible for the focused poor people to get a small loan to start a business, pay for school fees, procure housing or receive health care. Such an initiative is instrumental in changing the poverty patterns in view of improved facilities to lessen the challenge posed by startup capital. Microfinance has been

changing people's lives and revitalizing communities since the beginning of trade. The United Nations declared the year 2005 the year of micro-credit because since 1959, the UN has designated International Years in order to draw attention to major issues and to encourage international action to address concerns that have global importance and ramifications. The United Nations General Assembly resolution on the mandate for the year invited member states, relevant organizations of the United Nations system, nongovernmental organizations, the private sector and civil society to collaborate in the preparation and observance of the year. The invited organizations were expected to raise public awareness and knowledge about micro-credit and microfinance (United Nations, 2005).

The story of finance starts where there is a general acceptance of what is being offered as services. The World Bank financial access 2009 looked at financial access differences between developed and under-developed countries. Their findings were very distinctive. They discovered that the developed European countries were better exposed to financial services and accounts ownership. They collected some set of indicators of financial access in countries around the world. Such indicators included the number of deposit accounts and loans, the number of deposit clients and borrowers, and the number of financial access points, such as branches, agents, and automated teller machines. Financial inclusion is a state in which all people have access to appropriate, desired financial products and services in order to manage their money effectively. It is achieved by financial literacy and financial capability on the part of the consumer and financial access on the part of product, services and advice suppliers". The effort of all institutions both financial and developmental is aimed at encouraging inclusion. The use and access of financial services has been at the stem of study for major regulatory financial institutions. Some developed countries report annually on the level of access of finance for economic and social developments. Technology is gaining grounds on banking services through the use of ICT devices. Some of the various ways of encouraging and ensuring financial inclusion is in the circulation of deposit accounts, loans, insurance and automated electronic transfers (Oluyombo, 2010).

The Government of Rwanda fully acknowledges that the microfinance sector can play a key role in attaining the objectives of the Vision 2020 which are devised to transform Rwanda into an average- income country with a vibrant, diversified, integrated and competitive economy. When adequate instruments are used within an appropriate legal context, microfinance can help in capacity building for the poor, job creation and in building a wealthier and sustainable economy. It is in this spirit that a great progress was made to ensure the flourishing of the microfinance sector.

### **1. Statement of the Problem**

Banking system in Rwanda is limited to a number of various challenges. Rural lending is costly mainly due to small loan size, the high frequency of transactions, geographical spread, and the heterogeneity of borrowers and wide spread illiteracy. The high transaction cost is due to the fact that infrastructure for transport, communication and information technology is less developed in rural areas, especially in the remoteness of those areas. Clients frequently have to travel long distances to deposit savings or to repay a loan. As they usually travel on foot, this costs them an entire working day. Rural financial institutions face additional costs for ensuring security and managing liquidity. Despite the above reality, the microfinance Umurenge Sacco program was initiated for the purpose of allowing those unbaked but bankable people to be included and have access to financial services at low transaction costs (BNR, 2012).

The concept of Microfinance Umurenge Sacco was started on the understanding that banks and other financial institutions are more concentrated in towns and less spread in rural areas to serve the poor. Therefore, establishing a Microfinance Sacco at every Umurenge would bridge the gap.

However, much as microfinance services have existed in Rulindo District for a period of time, various problems are still appearing they include lack of information on the good practices in the area and the exact magnitude of impact of the services on the population and how the loans are accessed and utilized in order to attain socio-economic development. For this reason, the researcher would like to analyze how the presence of Umurenge Sacco has contributed in accessing financial services.

### **2. Research Objective**

#### **3.1 General Objective**

The main objective of this research was to examine the role of microfinance on financial inclusion in Rwanda.

#### **3.2 Specific Objectives**

- (i) Examine the role of microfinance in promoting financial inclusion in Rulindo District.
- (ii) Identify ways of improving the access to and utilization of microfinance services to customers.
- (iii) To determine the extent of poverty reduction by microfinance institution.

- (iv) To examine the financial services accessibility and different channels used to offer financial services by microfinance institution.

### 3. Research Questions

- (i) How microfinance institutions promote financial inclusion in Rulindo District?  
 (ii) What should be done to improve microfinance service delivery?  
 (iii) What is the extent of poverty reduction by microfinance institution?  
 (iv) What are the microfinance financial services accessibility and different channels used to offer financial services?

### 4. Research Design

The research design used a correlation and cross sectional survey methodology. The study was to analyze the correlation in order to determine or describe in quantitative terms the degree to which the variables are related. The focus of the research was to obtain some qualitative and quantitative data that would facilitate a conclusion about microfinance services as a key driver of financial inclusion in Rwanda a case study of Umurenge Saccos in Rulindo District from 2009-2012.

### 5. Target Population

The population of the research was 76 including staff and management of Umurenge Saccos in Rulindo District.

### 6. Sample Design

#### 7.1 Sample Size

Umurenge Saccos of Rulindo District has 17 branches, using the purposive technique 17 managers were selected for participation in the study while the sample size of 47 eligible Umurenge Saccos staff were selected using the simple randomly approach. In this research study the researcher used a sample of 64 participants for detailed study. By using Sloven's formula: (Okeke, 1995)

n= sample size

N= population

e = margin of error = 0.05 level of significance

$$n = \frac{N}{1 + N e^2}$$

In using the formula above the sample size is calculated as follows:

$$n = \frac{76}{1 + 76 * (0.05)^2}$$

$$n = \frac{76}{1 + 76 * (0.05)^2}$$

$$n = 64$$

#### 7.2 Sampling Techniques

The researcher used a probability sampling method, a simple random sampling and purposive sampling techniques in order to get the sample representing all the population. In simple random sampling, all staff of Umurenge Saccos of Rulindo District had an equal chance of being selected for the study.

### 8. Data Collection

#### 8.1 Data collection Instruments

##### Questionnaires

Data were collected from selected participants through interviews administered by the research and a research assistant using a standardized questionnaire with both close ended and open ended questions which were given to respondents to give their views about the study topic

##### Interview

The researcher conducted face to face interviews with respondents. The interview was chosen as one of the best instrument of research due to its flexibility and quick responses.

## Secondary data

The researcher used annual reports as a secondary data in collection of the information. The researcher collected reports from the SACCOS stakeholders to have a more detailed insight about the functioning and execution of this Program. The secondary information sources include collection and analysis of data from reports, published material and information from National Bank of Rwanda. The reports were analyzed and complement the primary data that were collected.

### 9. Data analysis

The study used descriptive data analysis which combines both quantitative and qualitative data methods of analysis. Computer packages like statistical package for the social sciences (SPSS) and Microsoft Excel were used to generate charts, tables and figures. After collecting data, the researcher processed the collected data through editing, coding and tabulation as explained below. For the research to be quantitative and qualitative type, quantities were used to facilitate the action of data presentation and analysis.

### 10. Research Findings And Discussion

#### Presentation of findings

The findings are presented according to the research objectives of the Study.

#### 10.1 Statistical analysis of data on strategies used by Umurenge SACCOs in promoting financial inclusion

##### 10.1.1 Financial services subscription provided by Umurenge SACCOs

**Table 1: Financial services subscription provided by Umurenge SACCOs**

Types	Frequency	Percentage
Credit	27	42
Saving	29	44
Insurance	0	0
Money transfer services	8	14
	64	100

Source: Primary data, October 2013

The table 1 present subscribers of financial services in Umurenge SACCO. In their answers 27 over 64 respondents (42%) revealed that people seek go for Umurenge SACCO seeking loans, while 29 respondents (44%) said that people go seek the Umurenge SACCO services with the main purpose of saving, and 8 respondents (14%) use Umurenge SACCO accounts for money transfer like salaries. The study further revealed that no one use Umurenge SACCO account for insurance.

##### 10.1.2 Challenges in providing financial services

**Table 2: Challenges in providing financial services**

Challenges in financial services provision	Frequency	Percentage
High non performing loans	8	12.5
Non repayment by customers	15	23.5
Lack infrastructure	5	7.5
Lack of professional staff in rural area	1	1.5
Lack of well-prepared project for financing	28	44
Others please specify.	7	11
Total	64	100

Source: Primary data, October 2013

Table 2 present information on challenges faced by Umurenge SACCO in providing financial services. The major challenge during this course of service provision is the inconsistent project as a result of their inadequacy in their preparation as shown by 28 over 64 respondents (44%). The next factor challenge is the nonpayment of loans by Umurenge SACCO debtors as confirmed by 15 respondents (23.5%). Other junior factors include non-performing loans as a result of 12.5% of respondents (8 respondents), lack of infrastructure as indicated by 7.5% of respondents (5 respondents), lack of qualified staff and other factors including delay of loans payment.

## 10.2 Statistical analysis of data on ways of improving access and utilization of microfinance services.

### 10.2.1 Measures to improve service delivery in Umurenge SACCOs

**Table 3: Measures to improve service delivery in Umurenge SACCOs**

Measures to improve service delivery	Frequency	Percentage
Increase the money given to the clients	27	42
Reduce the interest rates	2	3
Increase the grace period	16	25
Mobilization of money for payment	3	5
Expand the spectrum of their products	9	14
Increase its involvement in the provision of regulations	7	11
	64	100

Source: Primary data, October 2013

In table 3 we find views of respondents on measures to be taken by Umurenge SACCO to improve the financial service delivery. In their answers, 27 over 64 respondents (42%) suggested the increase in amount of money given to clients as loans. On the other hand, 16 respondents (25%) suggested the extension of the grace period to be their best choice as a measure of improving financial service delivery in Umurenge SACCO. The expansion of expectrum of Umurenge SACCO products was also another alternative to improve their financial services delivery supported by 9 respondents (14%) of this study. Therefore, the reduction of interest rates was not supported by respondents as alternative means of improving financial service delivery in Umurenge SACCO since it was suggested by only 2 respondents (3%). Also the mobilisation for loan payment was supported by only 3 respondents (5%), indicating its small contribution in improving financial service delivery at Umurenge SACCO.

## 10.3 Statistical analysis of data on the level of Umurenge SACCO in reducing poverty in rural areas

### 10.3.1 Level of Umurenge SACCO in reducing poverty in rural areas

**Table 4: Level of Umurenge SACCO in reducing poverty in rural areas**

Level	Frequency	Percentage
Very high	13	20
High	25	41
Low	16	25
Very low	10	14
	64	100

Source: Primary data, October 2013

Table 4 show that 20% of the respondents (13 over 64 respondents) confirmed that the level of Umurenge SACCO in rural poverty is very high, 41% of the respondents (25 respondents) confirmed it to be high, whereas 25% of respondents said of it to be low and the rest 14% confirmed that the level is very low. This means that although, more efforts have made to establish Umurenge SACCO, there are other sectors than Umurenge SACCO that support the development of rural areas and which can be complemented by Umuenge SACCO services.

### 10. 3.2 Impact of Umurenge Saccos on the social status of population in the area

**Table 5: Impact of Umurenge Saccos on the social status of population in the area**

<b>Impact of Umurenge Saccos</b>	<b>Frequency</b>	<b>Percentage</b>
Credit facilities,	11	18
Training,	9	15
Supervision and monitoring,	13	20
Savings mobilization	10	14
Banking facilities for the clients.	17	26
Train their clients about their products	4	7
	64	100

Source: Primary data, October 2013

The table 5 show that 11 out of 64 respondents, giving 18 % of the respondents said that Umurenge SACCO helps the community of the area accessing to credit facilities. 17 out of 64 respondents, giving 26% of the respondents agreed that Umurenge SACCO helps this community accessing to other banking services. 13 out of 64 respondents, giving 20% of the respondents agreed that loan supervision and monitoring would impact the well being of the population in the area. 9 respondents (15%) on the other hand believed that training the local population about Umurenge SACCO would impact their wellbeing and 10 respondents (14%), expected savings at Umurenge SACCO, as a core factor that would impact the community wellbeing in the area.

#### 10.3.3 How Umurenge SACCO expects the community to benefit from its services?

**Table 6: How Umurenge SACCO expects the community to benefit from its services?**

<b>Role of Umurenge SACCOS</b>	<b>Frequency</b>	<b>Percentage</b>
Increase their incomes,	24	37.5
Establish income generating activities,	19	30
Mobilize savings,	8	12.5
Open personal bank accounts,	3	4.5
Meet the school fees for the children,	4	6.5
Purchase household property	6	9
	64	100

Source: Primary data, October 2013

The table 6 present information on how Umurenge SACCO expects the community to benefit from its services. Over 64 respondents, 24 (37.5%) have shown the increase in income as the most valuable benefit from Umurenge SACCO, by the local community. 19 respondents (30%) on the other hand, prioritize the establishment of income generating activities as what Umurenge SACCO expects from its surrounding community. 8 respondents (12.5%) agreed that the community benefit from Umurenge SACCO by keeping their savings in a safe manner. 6 respondents (9%), on the other hand, agreed that people benefit from Umurenge SACCO by buying their household properties. 6.5% of the respondents (4), for them have agreed that the community benefit from Umurenge SACCO by meeting with the school requirements for their children. Lastly, 3 respondents (4.5%), agreed that the community benefit from Umurenge SACCO by opening their personal accounts.

### 10.4 Statistical analysis of data on financial services accessibility and their channels

#### 10.4.1 Challenges Umurenge SACCO clients face in accessing and utilizing the Umurenge Saccos services.

**Table 7: Challenges Umurenge SACCO clients face in accessing and utilizing the Umurenge Saccos services**

<b>Challenges SACCO clients face</b>	<b>Frequency</b>	<b>Percentage</b>
High interest rates	4	7

Small amounts of money given	9	13
Short grace period	13	19
Diversion of funds	3	5
Difficulties in fulfilling the repayment schedule	2	3
Small profits on the investment	7	10
To many deductions made	3	5
Actual money requested is not given	8	13
Short repayment period	8	13
Lack of empathy from the Umurenge Sacco	3	5
Lack of alternatives of accessing the loan facilities	4	7
	64	100

Source: Primary data, October 2013

Table 7 describe the factors as challenges that Umurenge SACCO clients face in accessing and utilizing its financial services. 13 over 64 respondents (19%), have confirmed that the short grace period to be the challenge of first category. The small amount of money given was ranked the second challenge, supported by 9 respondents (13%), same to challenges like short period of payment and the difference from the given money and the requested money supported by 8 respondents each. Small profits on investment was another challenge faced by Umurenge SACCO borrowers as declared by 7 respondents, followed by interest rates seconded by 4 respondents, lack of mortgages as supported by 4 respondents, diversion of funds supported by 3 respondents, many deductions supported by 3 respondents, lack of Umurenge SACCO empathy as supported by 3 respondents and meeting the repayment schedules supported by 2 respondents.

#### 10.4.2 Comparative advantage of Umurenge SACCOs products offer over those of other financial institutions

**Table 8: Comparative advantage of SACCOs products offer over those of other financial institutions**

Comparative advantage of USACCOs products	Frequency	Percentage
Quality products	24	37.5
customized to clients	13	20
Solve clients' problem	27	42.5
I do not know	0	0
	64	100

Source: Primary data, October 2013

Table 8 describe the comparative advantages of Umurenge SACCO products over those of other financial institutions. 27 over 64 respondents giving 42.5% agreed that Umurenge SACCO services solves the customers problems, 24 respondents giving 37.5% for them suggest that Umurenge SACCO delivers quality products and 13 respondents giving 20% confirmed that Umurenge SACCO is customized to clients.

#### 10.4.3 Perception of products offered by Umurenge SACCOs to their clients

**Table 9: Perception of products offered by Umurenge SACCOs to their clients**

Perception of products offered	Frequency	Percentage
Perceive services to be good	46	72
Perceive services to be bad	7	11
Client has negative feeling	11	18
I do not know	0	0
	64	100

Source: Primary data, October 2013

Table 9 present the perception of Umurenge SACCO services. Majority of respondents (46 over 64 making 72%) agreed with the Umurenge SACCO services to perceived good. On the other hand, 7 respondents giving 11% have agreed with the Umurenge SACCO services to be perceived bad, and the rest 18% of respondents declared Umurenge SACCO clients to have negative feeling towards Umurenge SACCO services.

#### 10.4.4 Pricing strategies of Umurenge SACCOs appropriate to the clients' compared to other savings and credits cooperatives

**Table 10: Pricing strategies of Umurenge SACCOs appropriate to the clients' compared to other savings and credits cooperatives**

Price level	Frequency	Percentage
Price is very high	13	20.5
Price is very low.	21	33
Medium	27	42
I do not know	3	4.5
	64	100

Source: Primary data, October 2013

Table 10 present the price levels of Umurenge SACCO services. 42% of respondents (46 over 64) agreed with the Umurenge SACCO services price to be affordable, and 13 respondents declared that prices are very high. On the other hand, 21 respondents giving 33% have agreed with the Umurenge SACCO services price to be very low, and the rest 4.5% of respondents have not revealed their point of view of Umurenge SACCO services price level.

#### 10.4.5 Effect of having Umurenge SACCOs in each administrative sector

**Table 1: Having Umurenge SACCOs in each administrative sector improve the access to financial services**

Umurenge SACCOs improve access to financial services	Frequency	Percentage
Strongly agree	6	9
Agree	24	38
I do not know	1	2
Disagree	23	36
Strongly disagree	10	15
	64	100

Source: Primary data, October 2013

Table 11 present the position of respondents to whether Umurenge SACCO in each administrative sector assists in accessing the financial services. 24 out of 64 respondents giving 38% have agreed with the statement and 6 respondents giving 9% have strongly agreed with it. On the other hand, 23 respondents making 36% have disagreed with the statement and 10 respondents giving 15% have strongly disagreed with it. Only one respondent has not revealed his position on this statement.

#### 10.4.6 Government support to Umurenge SACCOs give confidence to people about joining SACCOs

**Table 2: Government support to Umurenge SACCOs gives confidence to people about joining SACCOs**

Whether Government support has role	Frequency	Percentage
Strongly agree	24	37.5
Agree	23	37
Strongly disagree	5	8
Disagree	12	17.5

I do not know	0	0
	64	100

Source: Primary data, October 2013

Table 12 present the position of respondents to whether the government supports to Umurenge USACCO increase the number of subscribers joining Umurenge SACCO. 24 out of 64 respondents giving 37.5% have strongly agreed with the statement and 23 respondents giving 37% have agreed with it. On the other hand, 12 respondents making 17.5% have disagreed with the statement and 5 respondents giving 8% have strongly disagreed with it.

#### 10.4.7 Evaluation of Umurenge SACCOs program

**Table 3: How clients evaluate Umurenge SACCOs program**

How clients evaluate Umurenge SACCOs program	Frequency	Percentage
From what they see	25	39
Feel or touch	5	8
Before and after consumption of the product	34	53
Impossible after consumption	0	0
	64	100

Source: Primary data, October 2013

Table 13 gives information on how clients evaluate Umurenge SACCO programme. Over 64 respondents, 34 making 53% declared that USACCO services are evaluated before and after their consumption, other 25 respondents giving 39% said that USACCO programme is evaluated from what clients observe with their own eyes. Only 5 respondents giving 8% have declared that USACCO services are evaluated basing on the feelings or touch.

## 11. Conclusions and Recommendations

### 11.1 Conclusion

The main objective of this study was to examine the effects of microfinance on financial inclusion. The objectives of the study were to identify the role played by Microfinance in Rulindo District in promoting financial inclusion, to identify the relationship between physical location of Microfinance and financial accessibility, to examine the role of financial services accessibility and different channels used to offer financial services to the population. The research was conducted in microfinance, SACCOs located in Rulindo District. To examine the effect of Umurenge SACCOs on financial inclusion, the researcher used descriptive statistic to analyze the data collected from the field using frequencies, tables and figures to show the relationship between the independent and dependent variables.

The study revealed that majority of respondents agreed with the strategies used by the industry to promote the financial inclusion.

The findings further reveal that there is a significant relationship between the promotion of financial inclusion and community development. This has been evidenced by the respondents confirmation of certain achievements in the community backed by the financial services as results of financial inclusion. Thus, the community development and promotion of financial inclusion are the interacting factors, where the lack of one will affect other in either positive or negative way.

Conclusion can be drawn that the promotion of financial inclusion is a critical factor to be taken into consideration by the Rulindo district through the USACCO for the economic development of the community. Furthermore, ignoring promoting financial inclusion would affect the development of community in the area.

### 11.2 Recommendations

During this study, the researcher came up with propositions to the research questions based on the finding; that is recommendations on what can be done to dress the analyzed questions.

The Umurenge SACCO particularly in Rulindo district should provide trainings to their clients on proper loan management, to avoid the delay of loan repayment and non-performing loans.

District authorities should increase the mobilization of joining the Umurenge SACCO to benefit from economies of scale like increase of amount of money borrowed and the payment period.

Umurenge SACCO should extend the grace period as it is a common challenge declared by respondents.

There is also a need for the Umurenge SACCO to extend period that would reduce the monthly amount of payment due to the low interest on investment as stated by respondents in their answers.

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