

Building Resilience Through Digital Financial Services

Africa COVID-19
Digital Finance Market Impact Series

Rwanda

The **COVID-19 pandemic** highlighted the important role **digital financial services (DFS)** can play in reducing disruptions to supply chains, maintaining economic activity, supporting social transfers and ensuring safe transactions while maintaining social distancing.

In these challenging times, IFC's DFS advisory has worked with clients to build resilience and capacity through the Covid-19 crisis while designing, building and developing innovative business models for financial inclusion. This DFS market research series endeavors to share the insights gathered through this work.

Rwanda has one of the highest economic growth in East Africa, with a real Gross Domestic Product (GDP) driven by industry and services. Over the past decade, its industry grew by 8.3% and services by 7.6%. However, the country's poverty rate of 60% of the population living at \$1.90 a day remains one of the highest in the region ([African Development Bank, 2020](#)).

The DFS market is characterized by a blend of formal and informal product usage, the latter being mostly favored by women. Over the last 12 months from June 2019 to June 2020, the use of e-payments increased from 34.6% to 54%. **The positive trend in DFS usage and the size of the addressable market offer a positive picture for increasing financial inclusion in Rwanda.**



RWANDA: KEY COUNTRY STATISTICS



12.3 million

Total population



77%

Formal financial inclusion



54%

e-payments usage as at June 2020



87%

(6.2m adults) own mobile phones



78%

(5.6m) adults use informal channels (80% women)



27.7%

Credit Reference Bureau coverage

IMPACT OF THE COVID-19 PANDEMIC

In 2020, Rwanda's economy fell into recession for the first time since 1994 as the COVID-19 pandemic severely hit the tourism, education, and mining sectors. The poverty rate increased as a result of the negative impact of the crisis on output and employment means while real per capita GDP is not expected to return to its pre-crisis level until 2022.

Amid the pandemic-induced crisis, the government continued to implement its 900 million USD Economic Recovery Fund (ERF) with policies focusing on increased spending to contain the epidemic and to strengthen the health system, social protection, education as well as support to the private sector through the recovery fund aimed at businesses hit by COVID-19 over a 2-year period. The Banque Nationale du Rwanda (BNR), the central bank, was appointed as the Fund Manager but so far uptake has been low necessitating review of eligibility requirements. In addition, BNR has continued to maintain an accommodative monetary policy by keeping the policy rate at 5% since April 2020. Credit growth reached 21.8% in 2020, mainly driven by loans restructuring granted to borrowers whose activities were negatively affected by the pandemic. The banking sector remained well-capitalized and well-positioned to withstand the pandemic ([World Bank, 2021](#)).

Regulatory relief for Financial Institutions	Support Monetary Operations	Support Digital Payments
<ul style="list-style-type: none">Adjustment of banks' capital and liquidity requirementsTreatment of IFRS 9- when determining expected credit losses (ECL) and Significant increases in Credit Risk (SICR)Restructuring of loans for MFI and SACCO customers	<ul style="list-style-type: none">Introduction of an Extended Lending Facility to Banks (ELFB) of RWF 50 billion (USD 51m) to Banks with liquidity challengesReview of the existing Treasury Bonds rediscounting window at the prevailing market rate from 30 to 15 daysReduction of the reserve requirement ratio by 100 bps, from 5% to 4% (releasing RWF 23.4 billion additional liquidity for banks)	<ul style="list-style-type: none">Zero charges on all transactions between bank accounts and mobile wallets (push and pull)Zero charges on all mobile transfersZero merchant fees on payments for all contactless point of sale (mobile and virtual POS) transactionsIncrease of the limit for individual transfers using mobile money wallets:<ul style="list-style-type: none">Tier 1 - FRW 500 000 (USD 513) to FRW 1.5 million (USD 1540)Tier 2 - FRW 1 million (USD 1,000) to FRW 4 million (USD 4,000)

All these measures contributed, each to a varying degree, to increase familiarity of customers to DFS and to drive usage.

DFS MARKET OVERVIEW

Robust regulatory environment

- A financial consumer protection supervision framework is being developed.
- NBR increases the use of Big data analytics by to facilitate reporting and engages in full automation of data management as part of the Data Strategy.

Banking landscape characterized by consolidation of the sector, new services and strategic partnerships

- KCB acquired 62% of Atlas Mara (Bank Populaire du Rwanda (BPR) Bank Rwanda).
- BPR Small and Medium Enterprises (SME) Insurance solution -Insurance Premium Financing (IPF) designed to assist with payment of annual insurance premiums against fire and weather-related accidents.
- Access Bank Rwanda launched Ikaze Agency Banking through which new customers receive NFC enabled cards while the service is also delivered via a mobile app.
- I&M and BPR banks partnered to deliver training for Micro, Small and Medium Enterprises (MSMEs) on how to improve cooperation with financial institutions to grow and expand their operations.
- Dynamic Fintech sector focused on launching of new offerings.
- AC Group Tap and Pay (card-based) mobility solution scaled into country buses nationwide.
- Nokanda App launched a cashless payment app that creates shortcuts for USSD codes to ease money transfers, bill payments, etc.
- VubaVuba (a local start up in food delivery) offers multiple payment methods including mobile money, Visa card and SPENN.

Widespread distribution network

- Mobile money agents have the largest share of touchpoints.
- Savings groups also have a significant presence in the market, presenting an opportunity for targeted product development.

Strengthened mobile money product value propositions

- MTN ramped up merchant services by providing merchant codes and USSD access and by targeting SMEs (as the high customer transaction fees and merchant fees for cash conversion are deterrent to the growth of merchant payment).
- Airtel Rwanda rebranded and launched 'Mukaze Koze', with a waiver of fees on P2P, utility payments and 30% cash back on selected usage of mobile money.
- High rate of DFS usage and adoption.
- There was a marked increase in digital transactions especially via mobile during the COVID-19 period attributed to fee waiver, push for digital transactions and increased transaction limits which is reportedly stabilizing now.

Period: June 2019 – June 2020

Mobile Subscribers	Mobile Agents	Mobile Payment Trx Volume	Mobile Payts Value (USD)	Mobile Banking users	Mobile Banking Value (USD)	Internet Banking Trx Vol-ume	Internet Banking Value (USD)
15m	111,422	504m	4M	1,804,851	150m	1,451,898	2.5m
31%	9%	51%	87%	-6%*	131%	13%	25%

Source: Banque Nationale du Rwanda (2020). *Deactivation of inactive users.

EVENTS SHAPING DFS

- **Launch of the BNR price web comparator.** This will allow consumers to compare prices and terms and conditions from different commercial banks in Rwanda, with the objective of:
 - setting key disclosure requirements for consumer savings, transactional accounts, and consumer credit contracts,
 - enhancing consumers' ability to compare and make informed decisions,
 - putting in place measures related to the fair treatment of consumers,
 - increasing transparency of financial service providers (FSPs),
 - stimulating competition between FSPs and the fair functioning of the market.
- **Interoperability of the retail payment system** under the Rwanda National Digital Payment System (R-NDPS) initiative which comprises the technology as well as broader set of rules, processes and standards for the implementation of the switch.
- **Fintech Innovation Hub.** UNCDF championed the establishment of this hub in partnership with the Ministry of ICT & Innovation (MINICT), the ICT Chamber, the Kigali Innovation Centre and the Ministry of Trade and Industry (MINICOM) to support early stage fintech startups to navigate the regulatory and business environment towards growth and scale.
- In partnership with the **Kigali International Financial Centre (KIFC), Rwanda Finance**, with mandate to stimulate and grow the fintech sector by attracting both startups and investments from outside Rwanda, will promote Rwanda as a Proof-of-Concept Hub whereby startups can launch their businesses and from which expand to other markets.
- **MTN open its Application Programming Interface (API)** to support mobile-based innovation in the country.

GAPS AND CHALLENGES

Countrywide mobility restrictions and closure of businesses caused almost all sectors to contract in the second and third quarters 2020. GDP is estimated to have declined by about 3.3% over the full year as heightened uncertainty weakened business sentiment results in a large investment decline ([World Bank, 2021](#)). In this context, DFS growth is hampered by a number of challenges:

- The market is very price sensitive.
- The coverage of credit reference bureau is low and so is data sharing across lending agencies.
- The gender gap in the usage of DFS remains high averaging of 32%.
- Although spending at merchant services increased during the pandemic, the merchant offering is still not well developed nor interoperable leading to low uptake and usage of person-to-person transfers for merchant payment, which are not designed for this purpose.
- Overall, there are limited mobile money use cases beyond send, receive, digital credit, remittances and merchant services.

OPPORTUNITIES FOR MARKET GROWTH

The use of DFS in Rwanda can be supported by focusing on five key areas:

Economic impact of FI	Merchant Services	Savings and Credit Cooperatives (SACCO)	Digital Lending	Value Chain Digitization
Financial solutions that not only drive financial inclusion but also improve the resilience and sustainable livelihoods for (informal sector, women and youth). Improve financial health through high quality and consumer-centric products.	FINSCOPE data shows low cashless usage outside the COVID-19 window. Only 23% of adult population use MoMo to pay for service, buy airtime, save or access credit. Opportunity to extend merchant proposition	For Savings and Credit Cooperatives (SACCO) customer segments, automation will present an opportunity for savings and transactional product development	High dependence on informal credit which can be costly and requires disproportionate collateral. Opportunity to unlock affordable credit and microcredit for critical sectors. For example, Micro Finance Institutions (MFI's), Digital Credit etc.	In line with the move towards cashless by 2024, assessment of progress towards cashless for various value chains and implementation plan towards achieving sector-based digitization

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