

Will Covid-19 provide an opportunity for a step-change in the digital economy in Rwanda?



Access to Finance Rwanda (AFR) has just concluded a scenarios exercise aimed at addressing the following question:

How can digital financial services strengthen the recovery to enable resilience amongst low-income households and their businesses?

During the exercise we reviewed the recent experience of the rapid uptake of mobile money and other adopted digital payments platforms during the lockdown and concluded that Rwanda could turn the Covid challenge into an opportunity to leapfrog to a higher level of digital financial services and the digital economy.



On 14 March 2020 Rwanda registered her first case of COVID-19, joining the uncertainty that has spanned the world and disrupted the world economy. Under the strong leadership of the government of Rwanda, a lockdown was imposed two weeks later and health measures were implemented and strictly upheld to contain the spread of the virus. Rwanda has successfully held down the number of cases and deaths in the subsequent months and of course health measures are still in place.




However, like the rest of the world, Rwanda is not immune to the economic effects brought by as a result of less interaction, movement and normal operations among the citizens. The transport sector for the landlocked country came to a halt! This was one of the most severe and successfully-implemented lockdowns in the region. During the lockdown, which ended up lasting around two months, the government promoted the use of technology in an attempt to move markets online and digitize processes.

In order to facilitate online payment during and immediately after the lockdown the Government of Rwanda together with telecommunication companies implemented a **zero charge policy** on person to person transfers (P2P wallet to bank and MoMo pay was specific to persons or businesses where the government removed the transaction charges for person to businesses or business to business). This natural experiment led to a drastic change in the volume and value of transactions to up to five times in P2P transfers between March and April. This also led to:

4x
rise in unique
subscribers

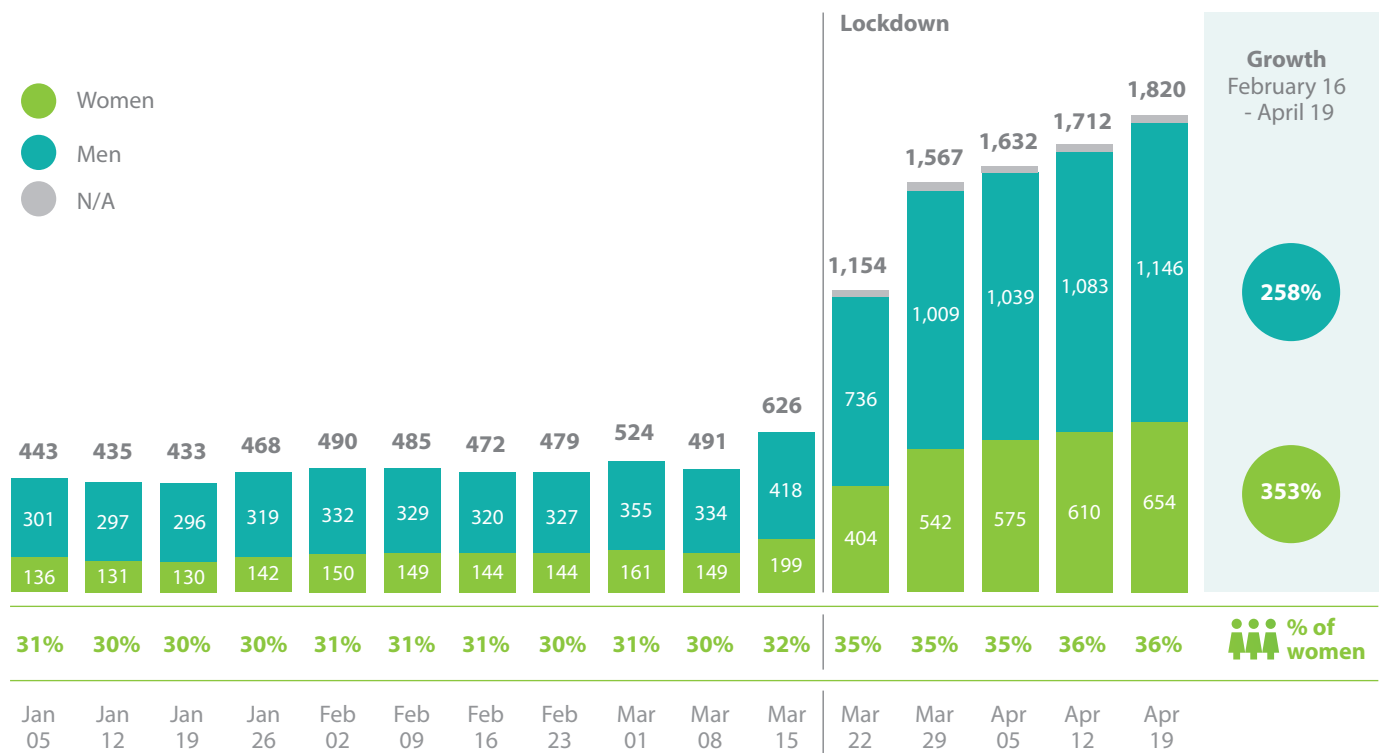
with a larger increase
amongst women

Increase of transaction size:

  
RWF 12,400 **RWF 13,400**
USD12.60 USD13.60

The figure below indicates the change in transactions as reported by AFR's research partner CENFRI:

P2P senders - Number of unique subscribers per week (thousands)



Source: CENFRI: When digital payment goes viral: lessons from COVID-19's impact on mobile money in Rwanda

We understand that transaction value and volume have fallen after the lockdown ended, but not back to the pre-Covid level. From this experience, we have learned that:

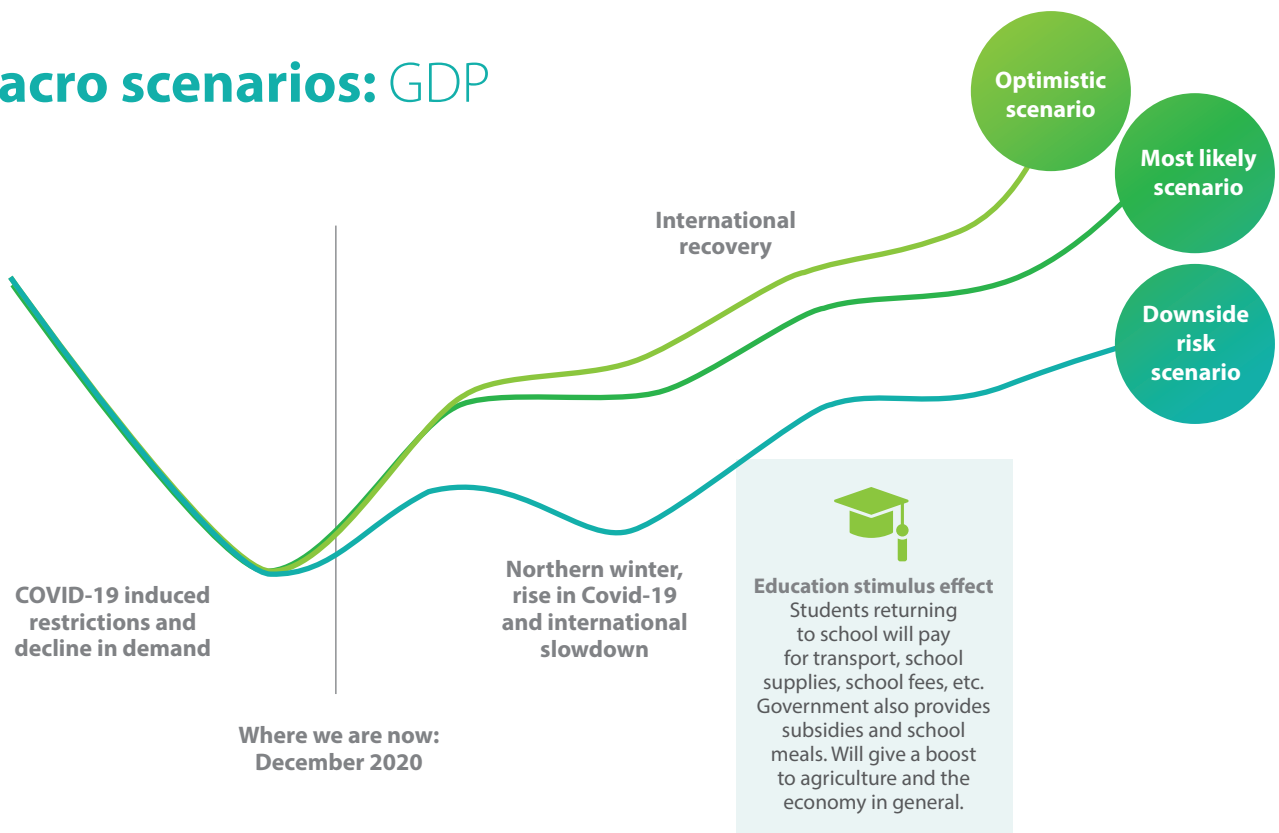
Rwandans are keen and able to use mobile money when the price and conditions are right. This means rapid leapfrogging to a much more digital economy is possible.

In early October 2020 Access to Finance Rwanda and BFA Global undertook a scenario approach to understand how AFR could adjust its strategy and programming to address the opportunities and challenges presented by the pandemic. Scenarios are not forecasting or predictions, but plausible stories, based on data, about how the future might unfold, to understand the drivers of change in digitization with a guiding question: How can digital financial services strengthen the recovery to enable resilience amongst low-income households and their businesses?

Macroeconomic trajectories

As part of the exercise, we examined three possible macroeconomic scenarios for the country over the next 12-18 months:

Macro scenarios: GDP



Most likely scenario

The macroeconomic environment has been characterized by a sharp decline in output with the onset of the COVID-19 pandemic. The key underlying factors are high levels of uncertainty about the trajectory of the pandemic, in addition to weak domestic and external demand due to the implementation of health restrictions to manage the pandemic, as well as household precaution and low investment. In this scenario, the pandemic is adequately managed by the health system. However, the economic toll, underlying structural issues and prudent macroeconomic policies result in a U-shaped recovery.

Optimistic scenario

The macroeconomic environment has been characterized by a sharp decline in output with the onset of the COVID-19 pandemic. The pandemic is adequately managed by the health system, and contributes to a V-shaped recovery. In addition, there is an acceleration in the adoption of mobile money, e-commerce and digitization of value chains, contributing to a stronger recovery over the medium-term. The realization of upside-risks also supports the recovery over the medium-term, including realization of good harvests and rebound of domestic and regional markets.

Downside risk scenario

The macroeconomic environment has been characterized by a sharp decline in output with the onset of the COVID-19 pandemic, which continues over the medium-term. Down-side health risks are realized, with a spike in the number of life-threatening cases, particularly once schools reopen. As a result, movement restrictions are put in place, which contribute to a deeper recession. Enduring uncertainty contributes to low household demand and investment. In addition to underlying structural issues, this contributes to an L-shaped recovery.

Personas

We then examined how digital financial services could support several personas to be resilient and recover under each of the scenarios. These personas are developed on the basis of available data and priorities to represent segments of the population that AFR is interested in.

Personas are based on existing data and priorities

<div>1</div>  <p>Smallholder farmer Nyiramajyambere</p> <p>Agriculture is the main economic activity in Rwanda with 70% of the population engaged in the sector, and around 72% of the working population employed in agriculture.**</p> <p>Agriculture appears to have remained resilient during Covid-19 and is set to continue to grow in the medium terms.</p>	<div>2</div>  <p>iWorker Sebacuruzi</p> <p>A key segment for AFR and government strategy of harnessing digital to accelerate financial inclusion and economic growth.</p> <p>Digital commerce has been accelerating during the pandemic</p>	<div>3</div>  <p>Small scale vegetable trader Nyiragwiza</p> <p>The informal sector employs 46% of working Rwandans* of which trade is a major contributor (15**).</p> <p>Although trade was affected during the lockdown, it is now recovering</p>	<div>4</div>  <p>Day worker in construction (unskilled) Kamali</p> <p>Day workers have low and volatile incomes, with weaker social safety nets as they do not have coworkers and employers.</p> <p>Construction has slowed down during the initial lockdown but is recovering now. The sector employs about 10% of workers**.</p>	<div>5</div>  <p>Smallholder farmer below extreme poverty line Nyiraguhirwa</p> <p>The poorest group of smallholder farmers occupy 16% of the population.</p> <p>Although they have an account at the local U-SACCO, they do not have a phone or mobile money.</p>
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*Finscope 2020 **FAO in Rwanda

As we reviewed each of these persons, we understood that increased use of digital financial services could help each of them access markets, participate in value chains, protect against risk and ultimately recover from the negative effects of the pandemic.

The scenarios exercise can inform AFR's future programming with an aim to help accelerate:



Digitization



Access to markets



Agriculture value chains



Digital commerce

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Of course, there is an opportunity for each of the personas to benefit from increasing digitization across the eco-system by accelerating digital financial services and the digital economy broadly. In this way, not only do the personas benefit as individuals, but in fact the whole economy sees efficiency gains and the potential for increasing growth.

Policy and programmatic implications to achieving a step change

This scenarios exercise can inform AFR's future programming, building upon AFR's existing strategy with an aim to help accelerate digitization, especially in financial services, access to markets, agriculture value chains and digital commerce. This is in line with the AFR's existing strategy as well as government policies, so what we are considering is not a change of direction but an additional push so that the country can move faster in the direction of the digital economy, with benefits to people like our personas such as Nyiramajyambere, a smallholder farmer, who would have increased access to markets and faster payments.

Of course, AFR cannot do this alone, so we intend to engage with stakeholders in Q1 2021 towards joint approaches to supporting and developing digital policies and interventions. More specifically, AFR has already embarked on work in this direction, including its i-Huzo initiative where we are working with the ICT Chamber to expand the e-commerce eco-system in Rwanda and increase the number of micro and small enterprises and iworkers who can benefit from digital commerce. We believe it will be important not only to intervene through specific programmes but also to engage with policymakers towards careful management of this huge digital opportunity. Without this careful management, there is a risk that people like our persona, Kamali, a day worker, could fall by the wayside as the country goes digital, or that people like our persona Nyiraguhirwa, in extreme poverty, could be left behind.

We look forward to engaging with stakeholders to help build a more digital economy for Rwanda as the country climbs out of the Covid trough.

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