Phase III Strategy

2021-2025

Summary • February 2021

Introduction

Access to Finance Rwanda (AFR) is a Rwandan not for profit organisation established in 2010 by the UK's Foreign, Commonwealth and Development Office (FCDO) in partnership with the Government of Rwanda. AFR is currently funded by FCDO, USAID, MasterCard Foundation and the Swedish International Development Cooperation Agency (SIDA). It is one of nine members in the Financial Sector Deepening (FSD) Network across Sub Saharan Africa.

AFR's strategic focus is to stimulate financial sector development by partnering with financial institutions and other stakeholders to increase access to and use of financial services. It is guided by the making Markets Work for the Poor (M4P) approach recognising that efforts to increase financial inclusion must be carried out by market actors to be sustainable. AFR identifies and intervenes to address constraints that prevent the financial sector from serving Rwanda's low-income population through promoting innovations and learning that result in sustainable change. Improving access to financial services for the rural poor, women and youth is of particular focus. AFR supports the Government of Rwanda's development objectives by aligning its interventions to national policy frameworks including the Financial Sector Development Programme (FSDP) II, and the National Strategy for Transformation 2017-2024.

During Phase I (2010-2015) and Phase II (2016-2020) AFR played a pivotal role to facilitate positive change in Rwanda's financial sector through its partnerships with the public and private sector leading to increased financial inclusion and enhancing livelihood opportunities for poor women and men.

This document summarises AFR's Phase III strategy and covers the period 2021 to 2025. It builds on the outputs and achievements building markets for sustainable financial sector development from Phases 1 and II and is based on an analysis of constraints and opportunities informed by:

- **recommendations emerging from the Phase II project evaluations**
- **Literature review of other programmes, studies and surveys**
- **Findings from Finscope 2020**
- **National Financial Inclusion Strategy (NFIS 2019 – 2024) and National Strategy for Transformation 2017-2024**
- **AFR Phase III design - stakeholder interviews**

Rwanda Financial Sector and Economic Performance

Poverty in Rwanda has reduced from:

60.3%

of the population in 1994

to:

39.1%

of the population in 2019

Rwanda's economic performance post 1994 genocide has been remarkable. For over 15 years the economy grew at an average of 7.5 percent while per capita Gross Domestic Product (GDP) grew at 5 percent annually, GDP per capita increased from $242 to $729, and poverty reduced from 60.3 percent of the population in 1994 to 39.1 percent in 2019. Services and agriculture were the main drivers of growth with agriculture being the most important driver for poverty reduction and reduced inequality. However, while revenue collections increased fivefold over the last 10 years, Rwanda's ability to finance its ambitious development agenda is constrained through a combination of declining aid and increased debt payments.

Rwanda's poverty levels have been steadily decreasing, but not for everyone, nor everywhere. Rwanda's Human Development Index ranking remains low at 0.524, putting it at 158 out of 189 countries and territories; this ranking considers education, life expectancy, and gross national income per capita. Despite heavy investments in quality housing, education, and health care, the country still has the highest income inequality rate in East Africa based on the Palma ratio as well as the Gini index[1]. Certain segments of Rwanda's population face powerful social and economic inequalities, including rural populations, women, youth, and people with disabilities (PWD). And while Rwanda has made considerable strides over the past decade in terms of gender equality, gendered power dynamics that subordinate women and girls remain prevalent. Gender inequality in particular remains one of the greatest challenges to more inclusive growth.

Rwanda's financial sector has experienced significant positive developments but remains underdeveloped. Coordination failures, information asymmetries, and the limited size of the market, are the main factors holding back the development of Rwanda's financial sector. As a result, service providers lack the incentive to innovate, are excessively risk averse, and do not offer financial services which meet the needs of the poor. Deepening access to financial services is necessary to support economic development, lower the incidence of poverty, and reduce dependency on aid.

The latest FinScope survey (2020) indicates that the number of financially included adults has risen from 89 percent in 2016 to 93 percent in 2020 or from 5.2m people to 6.6 million[2] which is almost half the Rwandan population. Whilst these numbers are impressive, what really matters is not whether Rwandans have access to a financial account but how they use the service/s to improve their incomes and resilience. While formal inclusion

[1] Who is growing? Oxfam International report, 2016; World Bank DataBank indicators for Gini index rankings for East Africa, accessed July 2020.

[2] The data referred to on this page and the next are from the FinScope 2020 survey.

has increased from 68 percent to 77 percent, more still need to be done to ensure Rwandans are using quality financial services to enhance their economic participation, productivity, and maximise their incomes. In terms of financial health, which seeks to assess how well one's financial management helps to build resilience from shocks and create opportunities to pursue one's dreams, FinScope 2020 found Rwandans show good signs of financial health in: (i) balancing income and expenses; (ii) building and maintaining reserves; (iii) managing existing debts and (iv) using an effective range of financial tools to manage financial lives[3].

Mobile banking grew from:

26%

in 2016

to:

40%

in 2020

Digital technologies have been critical in rapidly improving access to financial services. Mobile banking grew from 26 percent in 2016 to 40 percent in 2020 while internet banking grew from 2 percent to 32 percent. During the COVID-19 crisis, the use of digital platforms for access and use has increased and will continue to shape financial inclusion in Rwanda. According to research carried out by AFR in collaboration with the Rwanda Utilities Regulatory Authority (RURA) and the Centre for Financial Regulations and Inclusion (CENFRI) in June 2020, during the lockdown the volume and value of People to People (P2P) transfers increased by 397 percent and 485 percent respectively, and mobile money merchants' payments increased by 701 percent.

More people use formal and informal saving options. The percentage of people using formal saving options (bank and regulated non-bank) increased from 58 percent in 2016 to 69 percent in 2020 and the percentage of those saving at home decreased from 35 percent in 2016 to 13 percent in 2020. However, the percentage of those using informal saving options increased from 56 percent to 64 percent despite the government's drive to formalise savings at the national level. The percentage of those not saving at all has remained stagnant at 14 percent. To deliver on the national saving target and to create a more vibrant and responsive financial sector, saving levels will need to be further strengthened.

In total, 17 percent adults in Rwanda have/use insurance products. Insurance uptake increased from 507,220 in 2016 to 1,189,164 in 2020[4]. The main barriers to uptake remain affordability and lack of awareness (75 percent and 21 percent respectively). These results indicate a significant challenge for people and firms to access insurance vital for their effective economic participation and resilience.

The overall gender gap is closing but most women still rely on informal finance channels only and thus the formal gap remains. The number of men and women excluded from the financial system remained relatively the same in 2020 (7 percent and 8 percent respectively). However, compared to men, only 34 percent of women access banks (39 percent for men) and more women (19 percent) are reliant on informal finance than men (12 percent) meaning women face significantly higher costs and have less options. The survey results also indicate that youth and those living in rural areas are heavily dependent on non-bank institutions for financial services indicating the vital importance of these institutions in serving rural and marginalised populations.

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[3] The other two indicators are (v) Recover from financial shocks and (vi) Plan and prioritise
[4] Excluding the Community Based Health Insurance (CBHI) Scheme or "Mutuelle de Santé"

The COVID-19 crisis has significantly affected economic growth in Rwanda

The COVID-19 crisis has been recognised as the black swan event significantly affecting global, regional, and national growth. Prior to the COVID-19 pandemic, Rwanda was in the middle of an economic boom with growth exceeding 9 percent in 2019, driven mostly by large public investments for implementation of the National Strategy of Transformation. Key sectors of the economy have been severely impacted (tourism, trade, exports, manufacturing, transport and logistics) by the lockdown introduced in early March 2020. While overall highly detrimental, the crisis also presents an opportunity for market systems development (MSD) facilitators like AFR, as well as market actors including the public and the private sector to adjust and, where necessary, reform and re-evaluate policies and business models. This process is already underway with the increased use of digital payments platforms, remote working, expansion of ecommerce platforms, diversification of product ranges and a focus on localising value chains. The speed of the recovery is going to depend, in addition to the containment of the virus, on how well the financial sector facilitates and supports these and other sectors of the economy.

Progress has been made but more needs to be done

The financial sector in Rwanda has made huge strides, however, access alone is not the only challenge facing the financial market system. With financial inclusion levels in Rwanda already very high, deepening access on its own is not enough to improve livelihoods or increase economic participation. The long-term sustainable interventions in the financial sector must address the sector's role in facilitating growth which in turn will create economic opportunities for millions of Rwandans. AFR will support the financial sector to funnel credit, financial services and longer-term investment into productive sectors and businesses that can generate jobs and integrate poor producers / suppliers into value chains while ensuring it is inclusive and pro-poor to allow more Rwandans to benefit from economic growth. Risk management through an increased use of services such as insurance and savings as well as encouraging an increased focus on financial services to support households to evolve from consumption smoothing to sustainably increasing incomes will be key during Phase III.

While the Sustainable Development Goals (SDGs) do not explicitly target financial inclusion, greater access to financial services is a key enabler for many of them[5]. Financial inclusion is positioned prominently as an enabler of other SDGs - where it is featured as a target in eight of the seventeen goals. These include: (i) SDG 1 on eradicating poverty; (ii) SDG 2 on ending hunger, achieving food security and promoting sustainable agriculture; (iii) SDG 3 on good health and well-being; (iv) SDG 5 on achieving gender equality and economic empowerment of women; (v) SDG 8 on promoting economic growth and jobs; (vi) SDG 9 on supporting industry, innovation, and infrastructure; and (vii) SDG 10 on reducing inequality. Additionally, in SDG 17 on strengthening the means of implementation

[5] 2030 Sustainable Development Goals, United Nations.

there is an implicit role for greater financial inclusion through greater savings mobilisation for investment and consumption that can spur growth. Promoting youth employment and women's economic empowerment are key features of the SDGs, particularly in the context of driving economic growth. While some progress has been made, it is important to understand the considerable barriers women face around access and sustained usage, driven by gender norms, power dynamics and social inequality. These barriers need to be better understood and acknowledged to further drive increases in access and usage for women and close the persistent gender gap in financial inclusion in Rwanda. By focusing on vulnerable populations (poor women and men), rural smallholder farmers/agriculture sector, SMEs, and marginalised groups like women, youth, PWD and refugees, AFR's mandate is strongly linked to financial inclusion, economic growth and the SDGs.

Financial Sector Development (FSD2.0) – Vision and Alignment

FSD 2.0 is the emergent approach to financial sector development of the FSD Network in the 2020's and beyond. Under FSD 2.0, while the overall goal remains poverty elimination in line with SDG 1, FSD Network members recognise the need to be more intentional in achieving SDGs related to real sector outcomes including:

Inclusive growth	Basic Services	Sustainability
Inclusive growth (SDGs 8+9) measured ultimately by livelihoods of poor and vulnerable people	Basic services (such as health, education, energy, sanitation and housing) provided measured by improved service delivery to poor and vulnerable groups	Sustainable future initiatives in areas like climate change (SDG13) and fighting corruption and illicit flows (SDG16)

This new approach allows for AFR in Phase III to moves beyond a narrow focus on financial market development outcomes, towards real and social sector challenges and opportunities (e.g. energy, healthcare and shelter), which align with SDG priorities; and beyond financial inclusion at the household and individual level, towards financial sector development processes that reduce poverty through effective long-term capital mobilisation and allocation.

The FSD Network plays an important role in AFRs Phase III strategy. AFR will be able to leverage the network's footprint across the continent and learn from network activities in other countries, as well as supporting network collaborative programming around key themes such as Gender, Digital Economy, Green Finance, etc. and support FSD Africa Investment arm to develop a pipeline of investable opportunities in Rwanda, in line with the new focus on returnable capital.

Constraints and opportunities

A number of opportunities and constraints affecting the Rwandan financial sector and addressing them forms the basis of proposed AFR actions in the next five years. These include the following:

Inclusion is not equal for all – whilst there has been an improvement in access for women and the youth, these demographic groups and other underserved/ unserved communities such as people with disabilities, refugees and the poor are still left out.

The agriculture sector remains underserved - given that the bulk of the population is employed in this sector, the low levels of financial access and use significantly impact the poor and unserved groups.

Increased access but not usage - more needs to be done to address the (i) constraints that limit and (ii) increase the incentives that drive increased financial service usage.

MSMEs are starved of credit – despite this, MSMEs have a critical role in driving inclusive growth and provide hundreds of thousands of jobs for people in the urban and rural areas.

Low levels of savings - Low penetration and low diversity of insurance and pension products reduces the ability of Rwandans to manage unexpected shocks.

Underutilised potential of technology – the FinScope survey and the COVID19 crisis highlight the unrealised potential for mobile money and other digital platforms to further access and usage.

Big data and data analytics are the future – there is currently limited use of industry data to drive usage and the development of quality customised financial sector products.

Access to long-term and patient finance/ capital – Continues to be a key constraint that affects the growth and development of a number of sectors of the economy.

Financial education remains a challenge – The lack of access to information / knowledge continues to undermine the development of an efficient financial system.

Significant job losses as a result of the pandemic – Key sectors of the economy have been severely impacted (tourism, trade, exports, manufacturing, transport and logistics) by the lockdown introduced in early March 2020 which in turn has consequences for the financial sector.

Vision and Mission

Vision Statement

A diverse and inclusive financial sector that supports increased resilience and sustainable livelihoods for all and contributes to the Rwanda's economic transformation.

Mission Statement

To facilitate a diverse and inclusive financial sector that delivers real value to the economy and people, in particular unserved and underserved populations.

This idea of "real value" suggests the greater purpose of the financial sector, to support and enable people and businesses to create value for themselves and the economy.

Impact

The ways that financial services can bring positive change to the livelihoods of the poor are many and varied. Impact will be measured not just on increased transactions but on increased financial health, to be identified by two (and inter-linked) areas:

Resilience

Increased resilience and access to basic goods and services - specifically education, health, and housing by women and marginalised groups in Rwanda: how can financial services help people and businesses prepare for uncertainty, manage shocks when they occur and recuperate afterwards? This is particularly pertinent as Rwanda responds to the COVID-19 crisis

Opportunity

Inclusive growth characterised by expansion in income opportunities/reduced vulnerability by poor men and women in Rwanda through access to jobs and improved livelihoods: how can financial services help people and businesses capture opportunities, such as investing in or diversifying a business, migrating, or investing in their own human capacity (e.g. education) or basic services (e.g. housing, WASH)

These impact statements guide the theory of change and intervention design for Phase III (see Annex: Theory of Change).

Outcomes

The anticipated outcomes recognise that change needs to happen within the market system, and that this system-level change will be driven by the aggregation and interplay of the outcomes that occur with market actors, including (but not exclusively) financial service providers, customers and policymakers. With this in mind, there are two key outcomes in the theory of change:

Increased access and usage of relevant, affordable, and high-quality financial solutions by women and marginalised groups: The cost, design and availability of financial services currently pose constraints in outreach and in improving people's livelihoods. Improving financial services' affordability, appropriateness and accessibility, particularly by leveraging technology, will be critical for the next phase of the sector's growth.

Increased access and usage of relevant, affordable, and high-quality financial and long-term capital solutions by businesses in underserved and high potential sectors (including agriculture) with high potential for job creation, productivity growth and sustainability: If the financial sector is to support long term, sustainable development, it needs intermediate funding to sectors, such as farming, agri-processing, small business and technology.

Strategic Pillars

The theory of change for AFR Phase III is based on the market systems framework, and is an evolution from the theories of change for the first two phases of AFR. As an M4P programme, AFR works in all areas of the market system including the core (demand and supply), supporting functions and rules. In doing so, it will support market players to address constraints and to take advantage of opportunities to increase financial inclusion for marginalised populations and to increase finance for growth. Creating the appropriate enabling environment through a focus on policy, regulation, financial infrastructure, etc., are vital and important for the effective and efficient development of the Rwandan financial sector. This means that the financial sector supports the ability of the Rwandan population to improve resilience and to seize opportunities.

Four pillars and three crosscutting thematic work streams will form the basis of AFR's work over the 5-year duration of the strategy. The selected pillars of intervention include:

Pillar 1

Deepening financial inclusion and resilience

Financial exclusion (or being underserved) is itself a surface-level symptom of marginalisation, where such marginalisation occurs at a systemic and structural level cutting across individual, social and economic spheres. AFR must understand how, where and why certain groups (women, youth, PWD, informal sector and refugees) are marginalised in order to understand why they are underserved, and thus to meaningfully address these particular barriers to foster lasting and productive financial inclusion in order to increase welfare. This will require exploring and analysing the root causes of exclusion found in the core of the market system as well as in supporting functions and rules including working with policymakers and regulators to improve the enabling environment for greater inclusion. This phase will focus on utilisation of financial services in order to meet a need including usage and outcomes particularly in (i) ensuring ability to pay for services (ii) financing for implementation of initiatives targeting basic services (iii) promoting resilience and ability to manage risk (iv) ensuring equal access to basic services amongst disadvantaged groups, and (v) providing payments mechanisms.

Pillar 2

Finance Growth and Jobs

Key growth sectors have been and continue to be starved of credit and other appropriate financial services. This has limited the economy's growth and job creation potential. AFR will focus on helping to unlock key market failures that have restricted diversified and balanced growth through supporting efforts to unlock growth and job creation potential in agri-processing, light manufacturing, and logistics. Mapping of risk and access to finance challenges in particular values chains and exploring the constraints and opportunities within the overall market system is critical in building an understanding of the constraints that have affected the flow of finance to the selected sectors. Supporting a more enabling environment through a focus on policy, regulation, financial infrastructure etc are vital and important for the effective and efficient development of the Rwandan financial sector.

Pillar 3

Research and Information

Information asymmetry continues to be a major cause of market failures in (i) improving access and usage of financial services (ii) development of innovative and pro-poor financial services (iii) creating an efficient and competitive financial market, and (iv) facilitating growth across key job creating sectors of the economy. As such, in Phase III, AFR will play a key role in the development and dissemination of information to help develop a more efficient financial market in Rwanda, while at the same time developing the capacity of market players to develop and disseminate information for the benefit of market growth and sustainability after AFR's exit. This recognises that various financial markets remain underdeveloped and continue to need (at least in the short to medium term) public investments to help address the information and knowledge gaps. Engagement of a diverse spectrum of stakeholders furthers AFR's credibility as a preferred partner for interested stakeholders, and provides an opportunity for dialogue and learning that is fundamental in supporting programme staff to influence market players to change their behaviour for the benefit of the poor. AFR will continue to develop and cultivate relationships and networks with, among, and between producers and users of knowledge by providing linkages, knowledge sources, and in some cases knowledge itself, (e.g. technical know-how, market insights, research evidence).

Pillar 4

Digital financial Services (DFS) and Market Infrastructure

Pillar 4 – Digital Financial Services (DFS) and Market Infrastructure: Digital technology has played a pivotal role in expanding the access and usage of financial services as highlighted by the 2016 and 2020 FinScope Surveys. The importance of digital technology is seen particularly during the COVID-19 pandemic which is constraining many other delivery channels. AFR will continue, and potentially expand, its current digital infrastructure interventions such as interoperability of payment platforms and agent networks to facilitate inclusion of marginalised segments and deliver appropriate services to micro, small and medium enterprises. It will also focus on non-digital infrastructure interventions such as supporting the development of credit reference bureaus, collateral and contracts registries and platforms to support access to trade finance (factoring) and capital market instruments. AFR will also play a key role in ensuring that deepening of the digital financial sector is done responsibly; that is, the digital divide should narrow, not expand, and the sector must be demand-led and based on principles of integrity, consumer protection and empowerment.

Cross-cutting – Inclusion: Across each of the pillars AFR will think through how effectively interventions address the inclusion of marginalised groups including women, youth, PWD and refugees. This means that while there will be specific inclusion interventions targeting women (as well as youth, refugees and PWD) in Pillar 1, AFR will mainstream the inclusion of women and other marginalised groups in all Pillars.

Cross-cutting - Agriculture: The majority of the poor in Rwanda are involved in agriculture and thus a key sector for AFR's efforts to increase inclusion. Similarly, efforts to support finance for growth cannot happen without a focus on agriculture and agro-processing. AFR will ensure interventions effectively improve agricultural productivity and jobs.

Cross-cutting – Risk Mitigation: Low-income people face many challenges and most low-income people do not have risk mitigation mechanisms to cope and to maintain gains achieved given changes in trade, technology, and climate. Their low income means they are less able to save, accumulate assets or secure adequate risk mitigation tools. AFR will support initiatives to increase the ability of marginalised segments and businesses to save, purchase appropriate insurance, pension products and other risk management mechanisms.

Priority Theme – COVID-19 Response and stabilisation: The impact of COVID-19 will be felt throughout the economy for the next 2 years. The Government of Rwanda (GoR) and its partners are implementing a host of interventions to help restart the economy and support economic growth and jobs. AFR will support the financial sector to contribute to stabilising household and MSME incomes.

Monitoring and Results Measurement

AFR has developed a Monitoring and Results Measurement (MRM) system, which prioritises data collection and adaptive management. This system recognises the ambitious systemic-change objectives of M4P programmes, coupled with the complex and dynamic nature of the market systems in which AFR operates, places unique demands on the way in which AFR collects and uses information and results. The AFR approach to monitoring and evaluation is to implement a system capable of robustly capturing and reporting results (proving results) and that supports improved decision making by management (improving results). To prove results, the system credibly and robustly reports to external stakeholders an accurate reflection of the results AFR is achieving. While in a strict sense it is never possible to 100% 'prove' results, the AFR MRM system is designed to capture and report results in such a way as to convince a 'reasonable but sceptical' outside observer. To improve results, the system generates timely, relevant, and useful information for management, and this information is acted on by decision-makers. This means, for example, adjusting intervention strategies and tactics if results are not as expected, or changing the allocation of resources according to where AFR interventions are achieving the greatest impact. The AFR MRM System is designed to deliver not just robust data, but data and information that drives performance and value for money.

AFR Programme Theory of Change Phase III

Access to Finance Rwanda

Access to Finance Rwanda
KG 5 Avenue, House No.13 Kacyiru
P.O BOX 1599 Kigali

Phone: +250 782 507 751
Email: info@afr.rw
www.afr.rw