POLICY BRIEF

From Cash to Cashless: Leveraging the Potential of Digital Financial services in Rwanda

Ggombe Kasim Munyengera

Mutuyimana Agnes

Kwizera Seth

Akampumuza Precious

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Key messages

- Digital financial inclusion in Rwanda grew to reach 66% of adults in 2020, up from 46% in 2016.
- The range of products and service offerings has increased especially with the advent of mobile money.
- Low levels of digital and financial literacy, cyber insecurity, high transactional costs, limited interoperability and unreliable networks due to inadequate infrastructure especially in rural areas are key stumbling blocks to further DFS development and adoption.
- Strengthening the implementation of policies and enforcing regulations on interoperability, cybersecurity, and other areas, along with interventions to promote digital and financial literacy, could further advance the cashless agenda.

What is the issue?

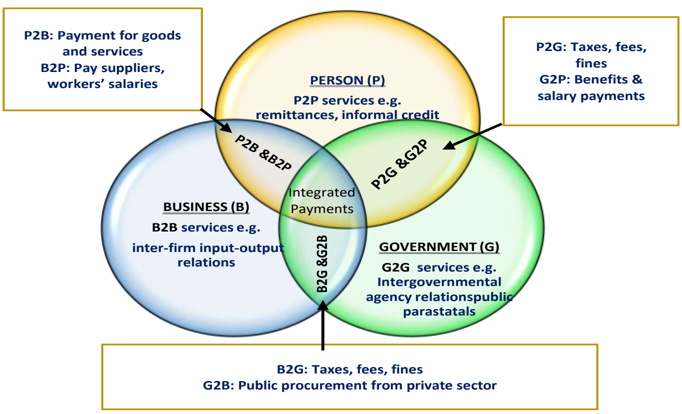
Digital financial inclusion in Rwanda has grown from 46% of adults in 2016 to 66% in 2020. The nature of payments has also evolved, shifting from peer-to-peer transactions to more sophisticated ones, such as tax payments. According to the 2020 Finscope survey, 94% of commercial banks now offer some form of electronic payment. This progress notwithstanding, cash remains the preferred method of payment for groceries (98% of respondents), electricity (52%), medical fees (60%), education (44%), and personal spending (60%). Critical impediments to further DFS development and adoption include limited interoperability among platforms and services of different service providers and low levels of digital literacy. The mid-term evaluation of the National Strategy for Transformation revealed that only 24% of adults were digitally literate in 2021, less than halfway to the target of 60% by 2024. Low levels of awareness of DFS products, unreliable networks, especially in rural areas, and low levels of trust partially motivated by cyber insecurity are additional impediments to being addressed.

Photo credit: AFR (2016) thematic report on DFS

Why is this Important?

Evidence-based interventions to address both demand-and supply-side constraints are crucial for furthering the development and adoption of digital financial services (DFS) in Rwanda, as the country pursues a cashless economy agenda. Besides promoting payment efficiency, safety, and convenience, more usage of DFS could enhance better monitoring of economic activity by the Ministry of Finance and Economic Planning and the National Bank of Rwanda, as well as tax assessment by the Rwanda Revenue Authority. Greater DFS penetration implies increased electronic payments as a share of GDP, targeted to reach 80% by the end of the National Strategy for Transformation in 2024. Promoting DFS access and usage can raise savings and investments that reduce poverty (SDG1) and encourage entrepreneurship and decent employment (SDG8).

Figure 1: The Digital Payments Ecosystem



What should policy makers do?

Strengthen policy implementation and enforcement of regulations: Despite Rwanda's National Interoperability Policy, interoperability remains low. Payments between MTN Mobile Money and Airtel Money only became interoperable in 2022, and transactional costs remain high. Strict enforcement and guidance of financial institutions and MNOs to join the Rwanda National Digital Payments System (RNDPS) would promote interoperability of DFS platforms. Interventions to promote cyber security and regulations requiring merchants to accept at least one DFS platform would further drive DFS adoption and usage. This could be supported by guidance on the development of Application Programming Interfaces (APIs).

Explore regulatory sandboxes: Allowing fintechs, financial institutions, and MNOs a grace period to test new DFS products before subjecting them to full regulatory requirements would incentivize innovations.

Targeted and practical digital and financial literacy programs: Work with financial institutions to design digital and financial literacy programs targeting customer segments. Examples include integrating related programs in school curricula and practical courses for informal sector players, women, youth, persons with disabilities, and other less advantaged groups.

Leverage PPPs for investment in digital infrastructure: Addressing unreliable networks affecting the quality of digital financial transactions, especially in rural areas, requires more significant investment in digital infrastructure. This could be achieved partly through public-private partnerships with financial service providers and other sector stakeholders.[1]

Sources

1. National Bank of Rwanda. (2014). Interoperability Policy
2. Republic of Rwanda. (2018). National Strategy for Transformation (2017-2024).
3. National Bank of Rwanda and Access to Finance Rwanda. (2018) Business Plan for the Rwanda National Digital Payment System (R-NDPS)

[1] The views expressed in this policy brief reflect the opinions of sector stakeholders and authors and not necessarily those of AERC.

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African Economic Research Consortium
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Middle East Bank Towers,
3rd Floor, Jakaya Kikwete Road
Nairobi 00200, Kenya
Tel: +254 (0) 20 273 4150
communications@aercafrica.org