



UNCDF RWANDA COUNTRY STRATEGY 2022-2025

Inclusive Digital Economies

COUNTRY STRATEGIC PILLARS 2022 - 2025

As Rwanda continues its recovery from the COVID-19 pandemic and the economic shocks and lockdowns that accompanied this global disaster, UNCDF Rwanda has put in place a forward-thinking countrywide strategy to support the Government of Rwanda (GoR) in returning to the levels of progress experienced pre-COVID. The 2022-2025 strategy draws on lessons learned from the past in Rwanda and globally and looks to the future by incorporating the objectives of the GoR in becoming a middle-income country by 2035, and a high-income country by 2050, as well as by emphasizing the achievement of the SDGs. It moves past a focus on only financial and digital inclusion to a more holistic financial health approach. The programme outlined in the strategy is centered on ensuring more productive and healthy lives for women, youth, and other marginalized populations, and relying on digital solutions where they have the most potential to be relevant and beneficial. It also focuses on the development of the private sector as the engine to advance the country's economic growth.

The country strategy for UNCDF's Inclusive Digital Economies (IDE) practice area envisions an inclusive, middle income, green and digital economy in Rwanda that leaves no one behind by leveraging digital and innovative financing solutions for women, youth, and smallholder farmers' economic empowerment. The strategy is built upon the following pillars:



Contribute to the improvement of **Customer-centric Digital Solutions for Financial Health and Resilience** among vulnerable populations with a special focus on women, youth, and smallholder farmers.



Promote an **Inclusive Green Economy** that reduces the vulnerability of local communities to climate change and lead to the sustainable use of resources.



Promote partnerships and Innovative solutions to advance **Entrepreneurship and Employment Readiness for Youth** with a particular focus on TVET students and graduates.



Support **Research and Policy** initiatives that enable the development and deployment of inclusive digital and financial solutions.

Pillar 1: Customer-centric Digital Solutions for Financial Health and Resilience



To respond to a growing demand for digital transformation, UNCDF Rwanda is committed to supporting Rwanda's evolution to an inclusive digital economy by promoting customer-centric digital solutions in several sectors with a focus on marginalized groups like women, youth, and smallholder farmers, through empowering private sector players to design, test, and roll out products. UNCDF further equips the demand side with digital skills and enables them to access digital financial products and services and become more self-reliant and resilient. Proposed activities include:



Supporting FSPs and fintechs to develop innovative digital solutions to reach marginalized populations and MSMEs.



Supporting digitization of agricultural value chains.



Digitalizing women-led MSMEs.



Innovation for cross-border payments for small traders.



Digital and financial literacy: Scaling up UNCDF's white label application.

In the last two decades, substantial progress has been made toward advancing financial inclusion in Rwanda. Youth, women and other historically marginalized groups are accessing and using financial products and services on a more regular basis. According to *FinScope 2020*, 93% of Rwandans over the age of 16 are financially included in terms of accessing either formal and/or informal financial products, which is almost double the level of inclusion found in the 2008 survey (48%). By focusing on the development and scaling of tailored digital and innovative financing solutions that improve financial health and resilience for all segments of the population, particularly those that have been historically marginalized, UNCDF's programme in Rwanda will enable market players to develop and expand transformative solutions that broaden and deepen financial health outcomes - security, resilience, control and freedom - for more than 50,000 women, youth, and smallholder farmers in Rwanda between 2022 and 2025.

That said, the COVID-19 pandemic has exposed a number of deep weaknesses in the globe's economic and social systems. People all over the world, especially those of low-and moderate-income, have lost their business and jobs and have seen their income and assets erode. The pandemic has laid bare the financial vulnerability of vast segments of the global population. Therefore, a focus on digital solutions that allow more people to access the products and services that can help them to strengthen financial health and resilience is necessary to assist those still recovering from the effects of the pandemic as well as to build skills and assets that allow them to face future emergencies.

In Rwanda specifically, the country's GDP is estimated to have dropped by 0.2% in 2020, compared to a projected expansion of 8% before the outbreak of COVID-19, according to *World Bank data*. This dire economic effect has had severely adverse implications for households, as thousands are facing unemployment, revenue losses and decreased consumption as prices rise and they are pushed into poverty.

The World Bank estimates that, because of the lockdowns, social distancing, and increased costs associated with the pandemic, the poverty headcount in Rwanda is likely to have risen by 5.1 percentage points (more than 550,000 people) in 2021, with more than 80% of the new poor in rural areas.

In light of these vulnerabilities, there is a need for a holistic approach that advances the financial health of individuals and households. *Financial health* is a comprehensive approach of research, advocacy and practice that aims to understand, measure and ultimately improve the part of well-being that is associated with the financial life of individuals beyond simply access to and usage of financial services. Building on its previous work in Rwanda, UNCDF is committed to applying this financial health lens to supporting the *Smart Rwanda Master Plan (2015-2020)*, which aims to power Rwanda's socio-economic transformation towards a knowledge-based economy through innovative, information driven and ICT-enabled solutions, and the *National Strategy for Transformation 1 (NST 1 2017-2024)*, which lays the foundation for a modern and poverty-free Rwanda.

UNCDF has identified activities such as digitizing agricultural value chains, working with financial service providers to improve their offerings to MSMEs (such as those in cross border trade), providing a simple, low-cost digital tool to women led MSMEs to support their operations, and scaling our white label financial and digital education tool in partnership with the GoR. By supporting both fintech and financial service providers to develop and/or adapt market-led solutions for allowing MSMEs to establish a digital footprint, and to collect and use data to unlock financing, both supply and demand side actors may benefit and grow. These activities have the potential to scale, meet GoR priorities, as well as leverage UNCDF's areas of expertise and goals.

Pillar 2: Inclusive Green Economy

13 CLIMATE ACTION



To support Rwanda's adaptation to a green economy, UNCDF Rwanda will promote models that allow businesses, fintechs and FSPs to scale up climate-focused innovations and encourage private sector actors to adopt green business models. UNCDF plans to work with the GoR, the UN's [Green Digital Finance Alliance](#), and the [Kigali International Finance Center](#) to develop a green MSME rating tool to unlock new sources of funding for climate focused MSMEs. UNCDF also plans to promote a digital climate smart agriculture (D-CSA) approach among smallholder farmers in Rwanda to strengthen their climate and financial resilience:



Promote green financing product to unlock new sources of funding for green business.



Digital financial services for climate-smart agriculture.



UNCDF's financing models are relevant to the green economy as they help reduce the vulnerability of local communities to climate change and lead to a more sustainable use of resources. UNCDF develops and tests models that get resources flowing into secondary cities, peri-urban and rural areas to mitigate the effects of climate change and build resilience. The models also help these localities meet the growing demand for sustainable infrastructure and will support the transition to green economy in Rwanda, whose ambitious agenda includes a 38% reduction of greenhouse gas emissions compared to current levels by 2030.

Globally, UNCDF has been running the [Local Climate Adaptive Living Facility \(LoCAL\) programme](#) since 2011, the [CleanStart programme](#) since 2012, and the [Boosting Green Employment and Enterprise Opportunities in Ghana \(GrEEn\)](#) since 2020 to mitigate the effects of climate change and build resilience, support the transition to a digital climate-smart economy. UNCDF also partnered with the OPEC Fund for International Development and Sustainable Energy for All (SEforALL) to launch a new [Climate Finance and Energy Innovation Hub](#) in November 2022, with the aim of finding innovative solutions to bridge gaps in green finance and unlock private sector investments in energy access and products and services that promote a green economy.

To better support Rwanda's adaptation to an inclusive green economy, UNCDF Rwanda will promote access to sustainable financing for climate resilience for the private sector, utilizing lessons learned from our global network. New products and services, such as those that promote improved inputs and regenerative agriculture, have already been shown to decrease the use of chemicals in soil and to increase yield for farmers. UNCDF is well placed to bridge the gap of financing for these forward-looking materials, one of the obstacles to transitioning smallholder farmers and MSMEs to products beneficial to the environment is the need for finance. Potential projects will also focus on issues such as timely finance, as our work with fintechs has the potential to close the gap between loan application and loan receipt, which could allow more of those accessing credit to use it for intended purposes.

Pillar 3: Entrepreneurship and Employment Readiness for Youth



The GoR's Education Sector Strategic Plan describes the use of ICT as 'fundamental' to achieving the socio-economic development outlined in Vision 2050, and its use in education as 'critical'. UNCDF Rwanda prioritizes the economic empowerment and skills development of youth and has designed programmes with activities that will prepare them, specifically TVET youth, for decent work and empower them to grow through the adoption of digital solutions. TVET is a focus area in GoR policy because Rwandan youth need a professional education that helps them build applicable skills to participate in a new and more digital economy. Under this third pillar, UNCDF is developing:



Digital skills for decent work: Entrepreneurship and employment readiness internships for TVET students.

UNCDF's financing models actively address economic empowerment via decent work. These models are meeting the need for customized financial services and infrastructure and other services that help the vulnerable to take advantage of economic opportunities and lead productive lives. UNCDF's programmes have a focus on women and youth, such as those in the workforce needing tools and job skills development and those, such as TVET students, who will enter the job market in upcoming years.

A focus on work readiness is vital in Rwanda given the great numbers of young people poised to begin economic activities which is growing each year. The 4th Rwandan Population and Household Census of 2012 showed that young Rwandans aged between 0-35 years old account for 78.7 % of the overall population, meaning that those defined as youth (aged 16-30) make up a large portion of the workforce. Youth economic empowerment is therefore an area of focus in Rwanda's National Strategy for Transformation I (NST1), which addresses youth economic poverty and unemployment by aiming to create over 200,000 new jobs annually, creating off-farm jobs, improving the work relevance of education, linking MSMEs to large farms and leveraging ICT to raise productivity in public and private sectors. A focus on economic development for this large segment of youth is key to the country's development as the youth unemployment rate in Rwanda increased to 29.8% in November 2021, according to the National Institute of Statistics.

Since 2010, UNCDF has played a strong role increasing access to finance for youth. YouthStart, which was implemented in eight countries in sub-Saharan Africa, was the first initiative of UNCDF specifically targeting youth (aged 12-24). In Rwanda, YouthStart reached 32,000 youth aged 12-24 with savings accounts, loans, and non-financial services through a partnership with Umutanguha Finance Company, Ltd.

Through the programme, UNCDF gained a deeper understanding of a) the types of financial services that best meet the needs of youth according to their socio-economic context and developmental stages, b) the business models that FSPs can use to deliver financial education to youth, c) the business case for youth financial services, d) the types of trainings and tools necessary for FSPs to gain a better understanding of the youth market, e) The need of the youth to be financially independent through job creation and, f) the changes needed in the policy and regulatory environment to increase access to financial services for youth.

UNCDF is now channeling its experience to support the development and scaling up of digital innovations that will empower young people and smoothen their transition to adulthood, with the specific objective of increasing the number of youth with concrete skills, that will lead to employment or business entrepreneurship. UNCDF will facilitate the provision of practical skills to the students by pairing them with the businesses (MSMEs, various stakeholders in the Agric value chain) to gain real-world work experience.

As an example, UNCDF is piloting a digital solution for women-owned MSMEs' bookkeeping that allows them to create an online presence and access formal finance from FSPs based on their credit scores. At the same time, UNCDF plans to integrate TVET students into the process of moving these businesses online and using the digital bookkeeping tool, therefore providing students with the opportunity to gain real-world work experience. The goal will be to ensure TVET students leave their educational programs with practical work experience and useful digital skills that will allow them to access decent work or start their own business.

Pillar 4: Policy and Partnerships

17 PARTNERSHIPS FOR THE GOALS



One of UNCDF's core strengths is the ability to convene stakeholders in the public and the private sectors. We have a long history of working together with governments, in Rwanda and elsewhere, to provide expertise and guidance in the building of inclusive and resilient digital finance ecosystems that do not leave the most marginalized behind. UNCDF as a catalytic agent promotes research and knowledge exchange, collaboration and cooperation among private sector actors, regulators, and other ecosystem players to boost the development and deployment of tailored suites of services for women, youth, and farmers that offer compelling value propositions for different segments of customers to accomplish their goals in the real economy using tools that are relevant, affordable, and convenient for them. Activities under policy and partnerships:



Supporting fintech regulatory sandboxes.



Creating awareness of the regulatory environment in the Fintech sector.



Creating a conducive environment for cross-border trade.



Implementation of the financial consumer protection law (2021).

Digitization and innovation agendas in Rwanda are guided by broad national-level policy frameworks and numerous government initiatives, including the [National Strategy for Transformation](#) (NST1) 2017–2024 and the SMART Rwanda Master Plan 2015–2020. Policies and regulation frameworks are supported by strategic interventions that aim to accelerate innovation and the growth of digital solutions in Rwanda.

In the financial sector, the GoR has made great strides in developing a legal and regulatory framework to provide certainty to digital innovators looking to launch and expand both in and beyond Rwanda. The recent development of a fintech policy and strategy with UNCDF's technical assistance is a clear signal of the Government's commitments toward enabling a thriving fintech ecosystem and positioning Rwanda as a fintech hub.

Building on our collaboration with the GoR in implementing a fintech accelerator hub, the [FinTechHub](#), UNCDF Rwanda will support the government in executing the fintech strategy. Specifically, UNCDF will provide support on three key intervention areas outlined in the policy and the strategy:

1. Improved regulatory guidance and clarity for fintechs in Rwanda:

In Rwanda, there is a need for regulators to provide more open communication, guidance, and engagement with innovators. The poor uptake of the regulatory sandbox when it was first launched by the National Bank of Rwanda in 2018 is testament to that as many potential participants were not aware of the sandbox or the benefits of participation as information about it was buried in legalese documents. Therefore, UNCDF plans to support the government in developing a range of communication tools and non-legally binding regulatory instruments to provide clarity and certainty for innovators, investors and other facilitators looking to engage with the fintech innovation ecosystem. These may be in the form of legal and regulatory toolkits, playbooks and facilitated dialogues on pertinent policy and regulatory issues.

2. Regional leadership and proactive regional engagement:

This is crucial for executing the GoR proof of concept strategy and making the country an attractive launchpad for fintech innovation.

From implementing the FinTechHub, UNCDF has learned that most companies in Rwanda have the vision to expand into other markets around the region to make up for the small market size in Rwanda. Specifically, many startups are looking to expand their products and services to DRC and Burundi, which are lagging in fintech innovation. UNCDF has also recognized an opportunity for Rwanda to take leadership in advocating for the harmonization of laws and regulations affecting fintech across the region. This will not only address the needs of fintechs but also for the incumbent who are facilitating cross-border transactions or operations across multiple markets in the region. UNCDF is well positioned to leverage our policy accelerator tools and our regional presence in DRC, Tanzania and Uganda to support Rwanda to champion the harmonization of cross-cutting laws and regulations affecting fintech, i.e., AML/CFT, consumer protections, data protection and personal privacy laws. The objective of this support in the longer term would be to facilitate data sharing and frictionless market entry for innovators operating across the region.

3. Execution of the financial services consumer protection law:

To continue building trust in usage of DFS and boost digital commerce in Rwanda, UNCDF proposes supporting regulators and policymakers in the execution of the financial service consumer protection law. Rwanda passed a comprehensive financial service consumer protection law for the first time in 2021, requiring FSPs to be more transparent and fairer in their interactions with customers. This is a move in the right direction in supporting transition to a digital economy; however, providers' compliance and consumers' understanding of the law may be lacking. Building on experience in financial consumer protection work in other jurisdictions, UNCDF is well positioned to support the GoR in ensuring harmonization between this and other laws and compliance with the law in a way that creates a level playing field between financial services providers and their customers.



Women and Youth: Crosscutting Focuses for UNCDF in Rwanda and Globally

UNCDF prioritizes the economic empowerment of women and youth, because these groups often need customized services and greater access to economic opportunities and financial and digital tools. Structural barriers often exist that lead to greater unemployment and a lower degree of financial health for women and youth, including a lower rate of financial and digital literacy and inclusion.

Therefore, UNCDF Rwanda has designed our programme with a focus on women and youth. This is part and parcel of data collection activities that disaggregate for sex and age so as to understand the needs and gaps for particular groups, and to develop activities and products that will fill in observed gaps. When designing tools and approaches, such as digital applications, UNCDF ensures that those with lower levels of digital literacy and less access to tools such as smartphones are of primary consideration so that they will be able to benefit and use these tools. Finally, UNCDF works with implementing partners that also have women and youth at the center of their programming, such as TVET centers (youth) and NGOs such as Inkomoko or World Relief (women).



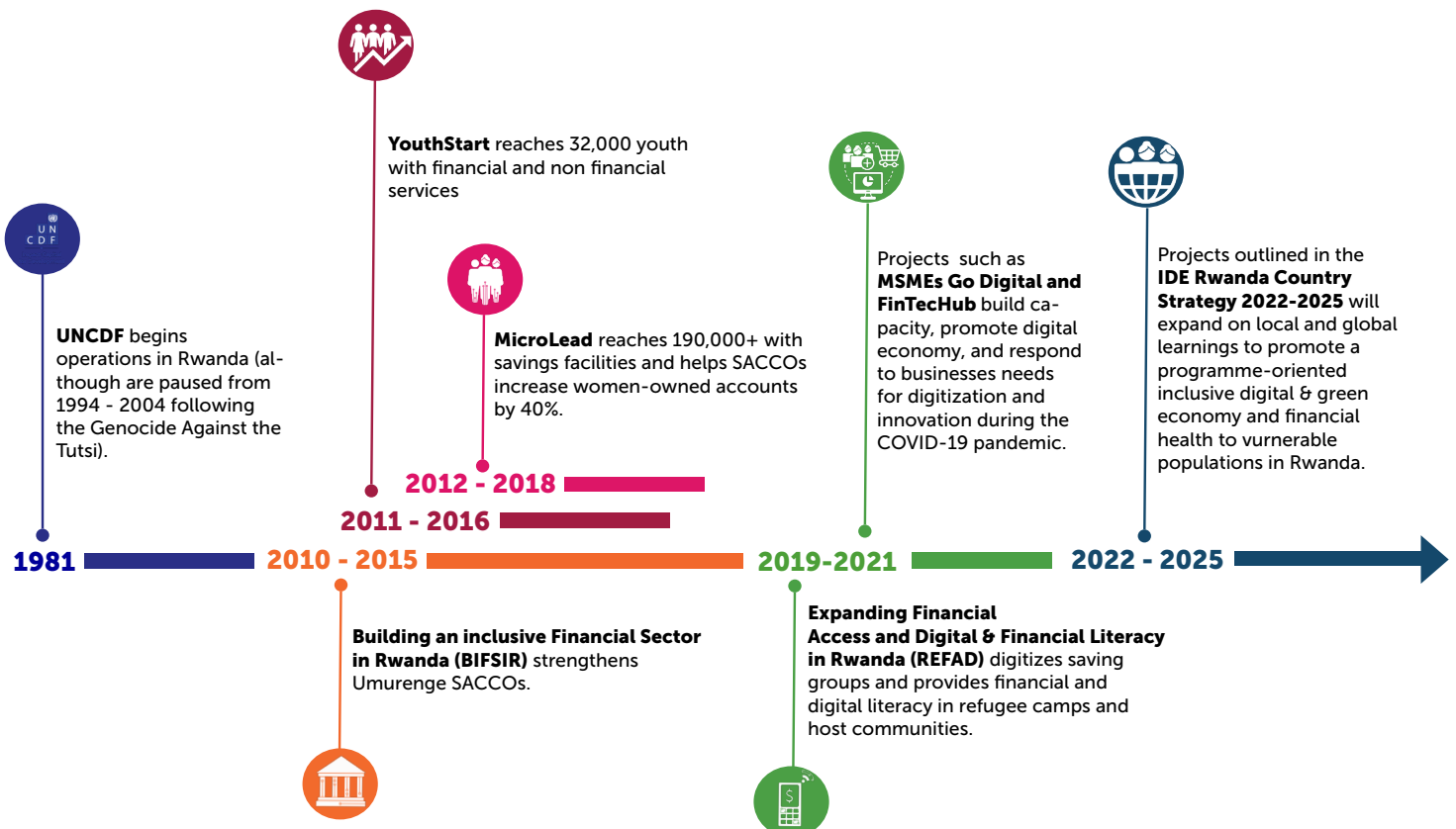
Why Financial Inclusion Is Not Enough

Financial inclusion is indeed important. However, in recent years UNCDF and other actors have observed that simply owning an account is not a direct line to a better life and have moved to tease out the factors that, while linked to account ownership and usage, also help to improve quality of life for low-income individuals. For example, “while financial inclusion in Kenya increased from 75% to 83% between 2016 and 2019, the percentage of adults deemed financially healthy declined from 39% to 22% in the same period.” Thus, an account does not necessarily mean a more prosperous life. Similarly, in terms of inclusion, we have seen significant progress. Since 2011, some 1.2 billion people have obtained a basic bank account. The mobile money industry transacts US\$ 2 billion per day, with over a million active accounts. Youth, women and other historically marginalized groups are increasingly using savings, payments, and other products and services, such as credit and remittances, through digital channels. Upon a closer look, however, it appears that most of this success comes from ‘first-level financial services,’ such as making and receiving payments and having a savings account. These might be ‘better than cash,’ but not necessarily creating the preconditions for building financial resilience or wealth.

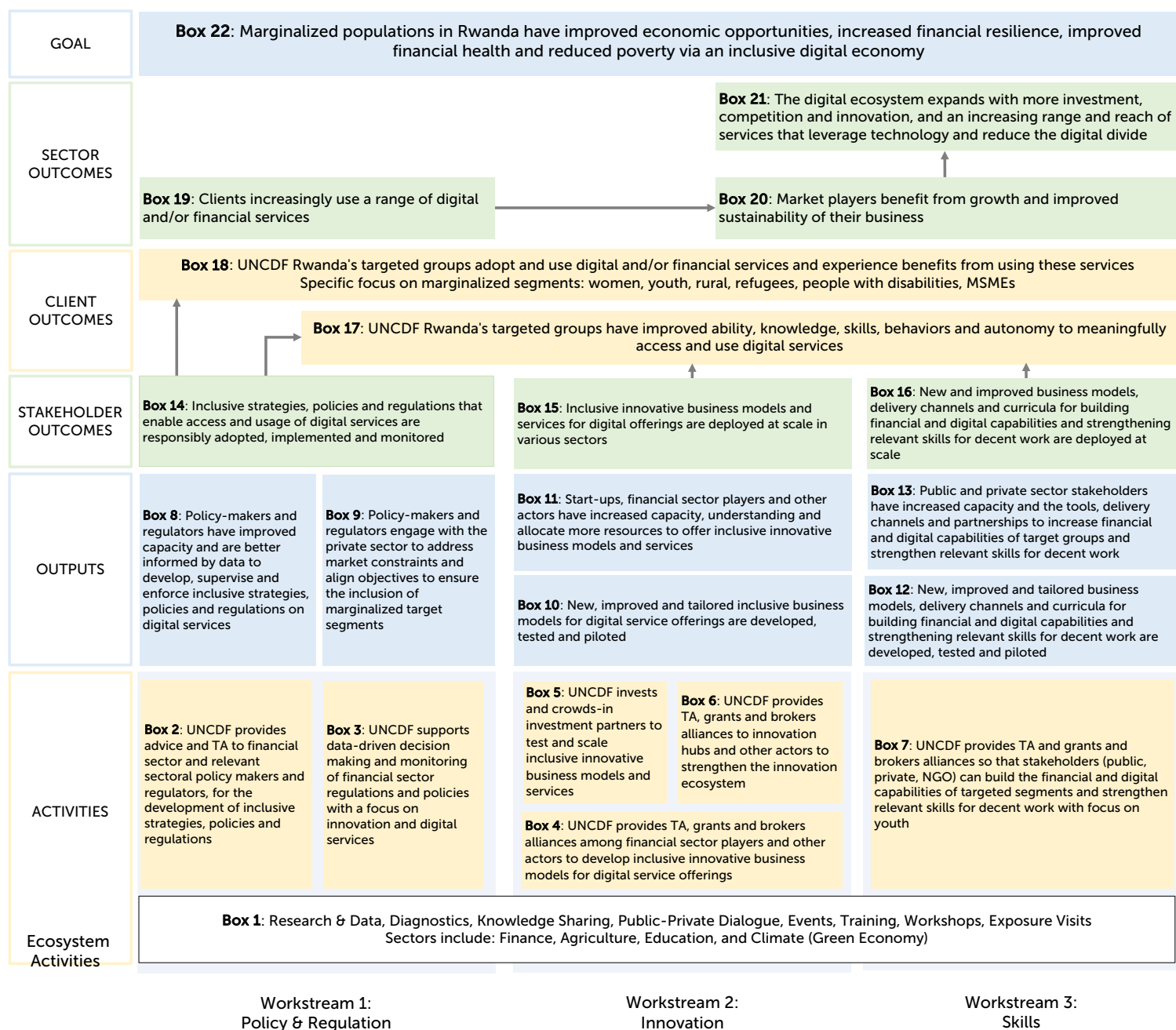
To move past access and usage of financial services, UNCDF in Rwanda has designed its 2022-2025 Strategy with projects that aim for improved financial health centred on achieving outcomes for those we bring into the formal financial sector such as day-to-day financial planning and management, resilience against shock, and ability to pursue opportunities and control their financial situations. By leveraging technology to deliver improved, customized, and affordable products and services, UNCDF has created holistic interventions that improve lives.

UNCDF in Rwanda

UNCDF has been present in Rwanda since 1981, initially promoting community empowerment through infrastructure development and service delivery. Since 2010, UNCDF Rwanda has worked to increase financial inclusion, build digital and financial capability, support the creation and adoption of policies centered on the digital economy.



UNCDF Rwanda IDE Theory of Change



* UNCDF support includes Technical Assistance, Grants, and Loans.

* Clients are considered individuals and MSMEs, with specific priority to women, youth, refugees and migrants.



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THE UNITED NATIONS CAPITAL DEVELOPMENT FUND

2022 - 2025

Leveraging the Development Impact of Capital

With its unique mandate and focus on the LDCs, UNCDF works to invest and catalyse capital to support these countries in achieving the sustainable growth and inclusiveness envisioned by the 2030 Agenda for Sustainable Development and the [Doha programme of action for the least developed countries 2022–2031](#).

Under its Strategic Framework, 2022-2025, UNCDF will continue to evolve into a hybrid development organization and development finance institution fulfilling its overall financing mandate with capital deployment, financial advisory services and capital catalysation. This will be matched with development expertise across five priority areas: the well established flagship areas of (a) inclusive digital economies; and (b) local transformative finance; and in the emerging areas of (c) women's economic empowerment; (d) climate, energy and biodiversity finance; and (e) sustainable food systems finance.

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