

Emerging markets for Rwanda: remittance transfers, its marketplace and financial intermediation

FINAL DRAFT REPORT

Manuel Orozco

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Introduction

This report presents the results of fieldwork analysis on patterns of remittance transfers to Rwanda. The preliminary findings show significant uncertainty about the inflow of money coming into the country from migrants to their families because of relatively limited statistical information, few if none estimates or studies on remittances and diffusiveness of the status of Rwandans abroad. However, using preliminary estimates accompanied by Central Bank data as well as private sector statistics on remittance flows we identify that the volume may be as high as US\$200 million in 2008.

Moreover, in understanding the marketplace of money transfers by remittance service providers (RSP) and payout locations in Rwanda, we find that it is very limited, and the regulatory environment is significantly restrictive as it only allows banks to pay remittances or other non-banking financial institutions to be subagents of banks.

When looking at the intersection between remittances and finances, the fieldwork results showed that financial institutions conduct little if none intermediation to attract remittance consumers. Microfinance institutions, which have shown interest to participate in the market, however, are well positioned to do so but are legally restricted and unaware of the extent of possibilities to provide financial services to this population and to that of their relatives abroad. Data resulting from a study on remittances in locations where microfinance institutions operate showed that 10% of people in those localities receive remittances. Moreover, their income and savings capacity is higher but predominantly informal.

The study recommends a number of policy options that include supporting the Central Bank of Rwanda in expanding its data collection and improving their methodology to collect numbers on remittances. Other recommendations include strategies to increase competition in money transfers and payment of these flows, provide technical assistance to design and market financial products, including housing loans, and support the newly created Rwandan Diaspora Directorate of the foreign affairs ministry.

This report is based on fieldwork interviews in Rwanda to financial institutions, fieldwork research and desktop research on migration and remittances, as well as the use of a survey to 600 people in partnership with Vision Finance microfinance institution and the International Fund for Agricultural Development.¹

¹ Fieldwork and research assistance for this project was provided by Eugenia Garcia-Zanello.

1. Migration and remittances in Rwanda

Migration flows from Rwanda have followed different trajectories shaped by its national and colonial history. To date Rwanda is among few countries with millions of nationals living outside the country, but whose real number is unknown. Remittance flows are also of an uncertain size because of limited knowledge about who sends or who receives. This section analyzes the size of migration and estimates possible inflows of remittances into the country.

a. Migration from Rwanda

International mobility of people is a circumstance by which people, individuals or groups, move across borders resulting from economic necessity, political violence, natural disaster, force or opportunity. Rwanda is a country whose boundaries have significantly shaped the order of migration in ways that have often diluted in a combination of causes making difficult the identification of who is a migrant, a refugee, or an exile, for example, some Rwandan refugees in Burundi and Uganda integrated into these host countries and are likely now economic migrants. This reality in turn makes it difficult to learn who among those living abroad remits to their relatives in Rwanda. For example the UNHCR established that at the end of the nineties there were more than one million people as refugees in neighboring countries and more than 10,000 people under asylum conditions. Many of these refugees integrated into the different societies as migrants or nationals of those countries (Uganda, Tanzania, and Kenya). Statistics from the DGRC show an estimated 240,761 migrants of Rwandan nationality. To government officials estimate that the size of the Rwandan diaspora may be larger than that, even if the diaspora includes only first generation Rwandans residing abroad.²

Table 1: Estimate of migrants

Host Countries	Migrants
Uganda	101,257
Tanzania, United Republic of	67,071
Kenya	11,750
Belgium	6,792
Germany	4,496
Ethiopia	4,261

² The Diaspora Directorate General of the Foreign Affairs ministry defines the Rwandan Diaspora “all Rwandans who left their country voluntarily or were forced to live in other countries of the world; this includes their descendants”. In interviews with senior staff revealed that their belief in the size of the immigrant population, or their ‘non descendant’ diaspora is more than half million. However, they also acknowledge the lack of material knowledge of this perception except that based on anecdotal evidence and the belief that not all Rwandans refugees, asylees, political migrants, and others returned after the genocide.

Host Countries	Migrants
Congo, the Democratic Republic of the	3,503
Burundi	3,117
United States of America	2,800
France	2,721
Pakistan	2,681
Canada	2,680
United Kingdom	2,632
Other	25,000
Total	240,761

Source: Migrants: Development Research Centre on Migration, Globalisation and Poverty. "Global Migrant Origin Database." Version iv, March 2007. <http://www.migrationdrc.org/>.

These estimates may serve as a baseline of what the reality could be. For example, in a survey conducted by the author in urban and rural areas where a microfinance institution operates, we found that 25% of households in the vicinity and clients of the MFI had a relative abroad. This figure would yield a total of 590,000 people abroad. Thus at a minimum a departing point may be a range between 250,000 to 600,000 Rwandans abroad.

b. Preliminary analytics on remittance transfers to Rwanda

The lack of certainty about how many Rwandans live abroad, and particularly how many of them are regularly connected to Rwanda by virtue of visits, calls, or sending money makes estimates of remittances also difficult. The Central Bank of Rwanda estimates remittances to have been just under US\$150 million in 2008. As of November 2008 they estimated the amount to be US\$128 million (a 20% increase from the previous year) and reported that the accumulated amount by money transfer operators was nearly US\$40 million or about 25% of all flows. This means that companies like Western Union performed less than 10,000 person to person transfers a month. See Table 2.

Table 2: Official flows of remittances to Rwanda from money transfer operators

A. Local				
MTO	Value (Rwandan francs)		Transfers	
CellCash (PubliCell)	1,609,925		160	
CSS Ntuma	74,443,029		1,825	
RIA	5,491,296		82	
MoneyTrans	357,123,798		2,526	
Money Gram	Sent	Received	Sent	Received
	1,120,458,385	2,149,538,790	4,348	20,249
Western Union	13,950,036,000	19,496,205,837	36,340	111,110
Total		22,084,412,675		135,952
Total in (US\$)		\$39,436,451		
Average remitted (US\$)		290		

Source: Central Bank of Rwanda

The Central Bank figure does not disagree significantly with the author's estimate of remittance flows, which was estimated using migrants' personal amount remitted by the percent of migrants remitting and their absolute number. The amount found is US\$148 million for 2007 (20% higher than what the Bank reported for that year). Furthermore applying the results found from the random survey to 600 microfinance clients and neighbors of the MFIs in January 2009, the percent of households saying they receive remittances was 9.5% on average, yielding 224,236 households (an amount similar to that found in MDRC) and an estimated US\$193 million. Overall these estimates do not deviate largely from the Central Bank of Rwanda and may indicate that at a minimum a quarter million of migrants may be sending money to their relatives.

Table 3: Estimate of remittances to Rwanda

Host Countries	Remittances	Migrants	Per capita
Uganda	30,275,843.00	101,257	360.00
Tanzania, United Republic of	20,054,229.00	67,071	360.00
Kenya	3,513,250.00	11,750	360.00
Belgium	19,683,216.00	6,792	3,600.00
Germany	13,029,408.00	4,496	3,600.00
Ethiopia	1,274,039.00	4,261	360.00
Congo, the Democratic Republic of the	1,047,397.00	3,503	360.00
Burundi	931,983.00	3,117	360.00
United States of America	8,114,400.00	2,800	3,600.00
France	7,885,458.00	2,721	3,600.00
Pakistan	2,959,824.00	2,681	1,329.22
Canada	7,766,640.00	2,680	3,600.00
United Kingdom	7,627,536.00	2,632	3,600.00
Other	24,502,003.50	25,000	1,217.26
Total	148,665,226.5	240,761	

Orozco, Manuel. "Estimating Global Remittance Flows: A Methodology" Washington, IAD, 2007, and IFAD, *Sending money home: Worldwide remittance flows to developing countries*, Rome, 2007.

Table 4: Remittance Estimates to Rwanda

	Neighbors and clients of MFI
Rwandan population (2008)	11,801,908.53
Households	2,360,381.71
Households with relatives abroad (%)	25%
Households receiving remittances (mostly rural areas) (%)	9.5%
Households receiving remittances (mostly rural areas) (#)	224,236
Amount received per year (@200, 4 times/yr)	US\$863
Annual amount received (US\$)	193,426,200

Source: Rural Rwanda, 600 interviews conducted by Vision Finance among five branches in the following locations: Gisenyi: 17%, Kanazi: 10%; Kigali: 27%; Ruhengeri: 25%; Rwamangana: 21%

2. Dynamics of the marketplace for remittance transfers in Rwanda

Understanding Rwanda's marketplace of remittance is as important as learning about its size. This marketplace exhibit significantly similar features to other African markets where regulations are narrow in scope and competition is limited to few remittance service providers and payers.

a. The regulatory environment

Rules on money transfers are generally a composite of laws pertaining to the authorizations on institutions allowed to perform foreign currency transfers, limits on the amount to carry out inbound or outbound transactions, as well as controls on financial crimes. Rwanda's latest legislation on money transfers is relatively new, as in most of Africa, and dates back to the late nineties. Still, it is comprised in different bodies such as banking law, laws on foreign exchange.

Specifically, Law No. 8/99 on Regulations Governing Banks and Other Financial Institutions (based on an earlier 1999) addresses financial institutions, and Law No. 11/97 focuses on the foreign exchange market. Article 15 of this law establishes that transfers of funds to or originating from abroad must be done through the intermediation of licensed banks or by the Central Bank. Moreover, Article 10 shows that payouts of US\$1,000 are to be made with presentation of valid ID and the purpose of the transaction. Moreover, Article 42 authorizes outbound transfers for scholarships, accommodation, living expenses, and medical expenses, but proper documentation is required.

Article 57 of the law on microfinance institutions, Instruction No. 06/2002 of the National Bank of Rwanda for Microfinance Activities, establishes that an MFI collecting funds from clients may, with permission from the Bank, engage in foreign exchange operations, foreign currency transfers or inter-banking operations. This authority occurs predominantly on the institution as a subagent of a bank to pay money transfers.

When looking at regulations on financial crimes, the main instrument available to date is an October 29, 2008, anti-money laundering bill passed through the upper and lower chambers of the parliament. Currently, this bill needs to be signed into law by the President. With the law in place, a Financial Intelligence Unit (FIU), a national agency charged with receiving, processing, analyzing and disseminating information relating to suspect financial transactions, will be formed. As of now, the monitoring of financial crimes is self-enforced by banks and other financial institutions, especially among those in connection with money transfer operators.

When it comes to (national or foreign) individuals' ability to open foreign currency accounts Article 19 of the Foreign Exchange Regulation (Jan. 1st, 2007) establishes that licensed banks

may open a foreign currency account to any resident or non-resident individual or institution. But it also stipulates some precautions regarding credits and debits, such as giving reason for withdrawals.

In general, these regulations are relatively conservative in that they allow in practice only banks to pay money transfers. As will be observed on the marketplace for money transfers the implications of banks being the only entities to pay are not so positive because they can restrict financial access to people and competition.

b. Marketplace competition

The marketplace for money transfer to Rwanda is not significantly competitive. Very few money transfer operators participate in the supply for money transfers, and banks generally do not open their position to other competitors. As table 2 above showed, there are six officially recognized competitors, CellCash (PubliCell), CSS Ntuma, RIA, MoneyTrans, Money Gram and Western Union. However, Western Union held 81% of the market as of 2008 and MoneyGram 15%. This means that competition is quite limited.

The reason of the strong concentration of this market share is associated to the limitations to who is allowed to pay in combination with exclusivity agreements that these companies demand from payers. In Rwanda due to the legislation focusing on banks as the authorized entity, only few outlets for money transfers exist, amounting to less than 90 payout locations for a population of eight million people and an estimated 250,000 recipients of money transfers. Moreover, because one company holds contracts with five out of the eight banks (one being a housing bank) in the country under exclusive agreement provisions the extent of competition is closed. In addition, banks are predominantly concentrated in the capital of the country, thus limiting access to most people who live outside the main city (see Table 5).

This control of the market share in transfers and volume of Western Union also correlates with the control of payout locations. The number of payout locations available per each banking institution totals less than 130, but 80% of those are Western Union agent locations (see Table 6).

Table 5: Payers in Rwanda and RSP partners

Name	Branches	Branches in Capital	RSP
Bancor SA	4	1	WU
Banque Commerciale du Rwanda (BCR)	10	4	WU
Banque Populaire du Rwanda (BPR)	15	2	WU

Name	Branches	Branches in Capital	RSP
Banque de Kigali (BK)	12	4	WU
Ecobank Rwanda	12	12	WU
Banque de L'Habitat du Rwanda (BHR)	1	1	
Compagine Générale de Banque (COGEBANQUE)	14	7	
FINA Bank Rwanda	6	6	MG
CSS Zigama	14		MT
Urwego Opportunity Microfinance Bank (UOMB)	28	4	
Vision Microfinance Duterimbere			

Source: data administered by author, 2008. WU: Western Union; MG: MoneyGram; MT: MoneyTrans

Table 6: Partnerships of Money Transfer Operators with Type of Payer in Rwanda

MTOs	Payer type				
	Bank	MFI	Other	Post	Total
Western Union	61.1%	5.6%	9.3%	3.7%	79.6%
MoneyGram	1.9%				1.9%
MoneyTrans		18.5%			18.5%
Total	63.0%	24.1%	9.3%	3.7%	100.0%

Source: data administered by author, 2008.

Interviews with banks showed that there exists an interest on the remittances market, but also relatively little knowledge about the migrant communities abroad, the size of the market or the various players in the money transfer industry. The banks generally perceive this to be an important market but their participation as payers does not date back before 2002. *Ecobank* only recently started to pay out remittances in Rwanda, as they began to offer money transfer services via Western Union in July 2008. Thus, the volume of remittances they handle is still low.

FINA Bank is an emerging player in the market. They are currently the only bank in Rwanda offering money transfer services through Money Gram (for both outbound and inbound transfers), with which they have an exclusivity agreement. They conduct approximately 1,000 transactions per month, which represent about RWF\$60 million (US\$100,000) annually, or \$8,000 on a monthly basis.³ They currently only pay out remittances in their Kigali branch, but are hoping to expand services to other branches and in the future work with sub-agents, such as microfinance institutions, with a presence in rural areas.

Banque Commerciale du Rwanda is a recognized agent of Western Union money transfer services in the country. About thirty five of the bank's branches offer WU transfers, and they also have

³ Interview with bank officials. FINA Bank, Kigali: January 15 2009.

sub-agents offering these services throughout the country, including post offices. BCR sends out about US\$1 million per month in WU money transfers (outbound) and receives about US\$25 million a month. The average transaction for the inbound side is of US\$250 (mostly remittances from the diaspora) and \$700 in the outbound (including commercial money transfers for trading). They handle on average about 7,000 transactions per month.⁴

Bank of Kigali started offering money transfer services in 2002 through Western Union. As is the case with the other large commercial banks in Rwanda, they have an exclusivity agreement with the money transfer company. When interviewed, bank officials did not want to comment against the agreements. However, they did express their concern for the cost of money transfers and explained that WU costs were very expensive, at least in comparison to regular bank transfer fees through SWIFT.⁵

In 2009, *Banque Populaire du Rwanda* (BPR) began to offer SWIFT transfers and it signed an exclusivity agreement to offer money transfer services with Western Union (ten of their agents pay with WU and in the future they hope to expand that number).

In general, competition is thus reduced at this point to contracts of banks with non-banking financial institutions to operate as subagents of MTOs. Under those conditions, MFIs could participate and expand the reach, but would be locked from negotiating with others, and prevented from earning 100% the revenue per transaction typically earned by a bank.

c. Costs of remitting to Rwanda

The lack of competition is not only reflected through the way in which the law posits banks on a higher ground and the monopolistic control of a company on the payout, but also through the cost to consumers paying money transfers while being abroad. Table 7 shows that Rwanda is in fourth place in market concentration through payout locations in 25 selected African countries, but also appears as the group with an expensive fee to remit.

⁴ Interview with bank officials. Banque Commerciale du Rwanda, Kigali: January 15, 2009.

⁵ Interview with bank officials. Kigali: January 16, 2009.

Table 7: MTO presence in selected Africa countries and transfer cost from main destination

Countries	Money Transfer Operators						Costs to send US\$200	
	Western Union	MoneyGram	Coinstar	MoneyTrans	Money Express	Other	WU	MG
Cape Verde	97%	3%	0%	0%	0%	0%	16	9.99
Burundi	85%	3%	3%	10%	0%	0%	21.08	14.05
Mali	81%	12%	1%	2%	4%	0%	16	13.67
Rwanda	79%	3%	18%	0%	0%	0%	16	10.2
Burkina Faso	64%	10%	2%	0%	12%	11%	16	14.05
Benin	64%	5%	2%	0%	18%	11%	21.08	14.05
Chad	59%	23%	3%	0%	15%	0%	16	14.05
Togo	53%	6%	1%	22%	18%	0%	16	9.99
Zimbabwe	52%	44%	4%	0%	0%	0%	16	9.99
DRC	49%	2%	27%	22%	0%	0%	16	9.99
Tanzania	48%	10%	0%	0%	0%	42%	16	9.99
Sudan	43%	0%	55%	0%	0%	3%	11.19	
Cameroon	41%	22%	12%	11%	14%	0%	21.08	14.05
Zambia	39%	61%	0%	0%	0%	0%	16	9.99
Ghana	39%	24%	4%	0%	0%	33%	16	9.99
Morocco	37%	40%	4%	3%	0%	16%	25.32	15.2
Ethiopia	33%	14%	2%	0%	0%	52%	16	9.99
Kenya	33%	10%	34%	0%	0%	1%	12	9.99
Nigeria	31%	46%	22%	0%	0%	1%	12	9.99
Senegal	30%	10%	23%	19%	17%	0%	16	15
Egypt	30%	58%	0%	0%	0%	12%	11.99	9.99
Uganda	29%	19%	2%	0%	0%	50%	16	9.99
Algeria	24%	1%	0%	0%	0%	75%	26.24	15.17
South Africa	1%	99%	0%	0%	0%	0%	16	9.99
Total	36%	26%	10%	7%	4%	17%	17.5661	12.2177

Source: data administered by author, 2008.

3. Financial intermediation and remittance recipients

Remittances are foreign currency transfers that directly intersect with finances. As foreign savings that enter the financial system they contribute to raise national deposit ratios, but also in so far as retail consumer deposits stands, the demand for financial services has greater impact on the local economies. These inflows may range between 5 to 7% of the country's GDP depending on which estimate is adopted, but the effects they have on savings accumulation are also an important added benefit as people save significant amounts of money and the opportunities to provide financial intermediation are relevant. Here we provide some findings of the extent of financial intermediation by banking and nonbanking financial institutions, and on the savings capacity of those receiving remittances.

a. Remittances and financial services

Rwanda's financial system is relatively new; most of its institutions have been in place for less than 30 years in operation. There are at least five major banks and three major microfinance entities that work in the country. Their approach to retail banking is also relatively new and overall has mostly been concentrated on corporate accounts and few personal current accounts. This model has partly influenced any approach toward cross selling financial services to people receiving remittances. Interviews with executives of these banking and non-banking financial institutions showed their interest but lack of knowledge or effort in getting people into banking institutions. Some efforts exist, however, that are important to strengthen over the long term and refer to the case of Rwanda's Commercial Bank and the Housing Bank.

For example, *Ecobank* is the one of the leading pan-African banking groups in Africa, currently operating in 25 African countries and rapidly expanding its presence across the region. In 2007, they grew revenues by 56% to US\$544 million; customer deposits rose by 89% to US\$4.7 billion; profit before tax increased by 47% to US\$191 million; and value added totaled US\$210 million.⁶ The bank has been operating in Rwanda for only two years, but it is growing very rapidly and hoping to expand the number of branches across the country (as of January 2009, they had twelve branches). Currently, it is one of the largest commercial banks in Rwanda, and perhaps the largest after Bank of Kigali, Banque Populaire and Banque Commerciale du Rwanda. In 2007, the bank had US\$79,886,855 in assets.⁷

The bank has no formal strategy to bancarize their clients who receive remittances. Ecobank, however, recognized the need for bancarization efforts in Rwanda. According to their mission statement, "is committed to providing the underbanked and the unbanked poor with access to

⁶ Ecobank 2008: <http://www.ecobank.com/english/group/introduction.aspx?RubID=3&SRubID=1&SSRubID=6>

⁷ Financial Report 2007:

http://www.ecobank.com/documents/rapports_filiales/rapport_%20annuel_rwanda_2007.pdf

finance.”⁸ When interviewed, bank officials expressed this view, stressing that bancarization efforts “go with our objectives, as we know that less than 10% of people have bank accounts in Rwanda.”⁹ This is something they will focus on in the future.

FINA Bank is a commercial bank that obtained a full banking license in 1983 and was one of the first privately owned banks formed in the country. The bank's principal activities include “corporate banking, international trade financing and retail banking financial services and products to corporate and established medium and small businesses as well as salaried workers.”¹⁰ Their assets as of 2006 totaled US\$ 48,139,771. As for efforts to bancarize their clients, they do not have a formal strategy to offer financial products to remittance clients. When asked, bank officials showed skepticism regarding recipients’ tendency to save: “When people get money (remittances), they have a need to spend it right away.”¹¹ Nevertheless, they showed interest in eventually employing a bancarization strategy and reaching out to remittance clients.

Banque Commerciale du Rwanda was founded in May 1963, and privatized in December 2004, and is currently one of the biggest banks in the country, with over ten branches and head offices in Kigali. It is a private commercial bank now owned by ACTIS, a private equity investor in emerging markets based in the UK with a major focus on Africa, with 80% shareholding and the Government of Rwanda with 20%.¹²

As for efforts to increase financial access to remittance recipients, bank officials expressed much enthusiasm: “we are thinking about opening more accounts for them... at each inbound transfer we try to get the customer to open an account with once, and once they do they have access to other financial services we offer, like loans.”¹³ Bank officials interviewed also expressed much interest in working to form partnerships with microfinance institutions, and said that they have already engaged in dialogues with two of the main MFIs in the country (Urwego Opportunity Bank and Vision Finance). However, bank officials explained that the microfinance institutions have not been very proactive nor shown much interest in these opportunities. Nevertheless, their hope is that such projects do solidify in the future, since MFIs could be the missing link to provide services to remittance clients in rural areas.

Finally, the bank has also made a concerted effort to reach out to the Rwandan diaspora living abroad. They offer you a unique facility to give Rwandan’s abroad support in their

⁸ Ecobank (Corporate Social Responsibility, 2008):
<http://www.ecobank.com/english/group/socialresponsability.aspx?RubID=5&SRubID=35&SSRubID=30>

⁹ Interview with bank officials. Ecobank, Kigali: January 14, 2009.

¹⁰ Ibid

¹¹ Interview with bank officials. FINA Bank, Kigali: January 15 2009.

¹² BCR 2008: <http://www.bcr.co.rw/aboutbcr.htm>

¹³ Interview with bank officials. Banque Commerciale du Rwanda, Kigali: January 15, 2009.

financial activities in and outside Rwanda, ranging from opening of accounts via Internet, profitably saving your money, supporting your family to planning for any future investment in Rwanda.¹⁴ They state that their “goal is to establish a strong relationship with you (the diaspora) and adapt our services to your needs.”¹⁵ Through their services, clients have access to online banking services, various loan term loans, and savings products that assist their family within the country or abroad.

Banque Populaire du Rwanda (BPR) was created in 1975. It was initially a cooperative of banks, many operating in rural areas, and in January 2009 it became a commercial bank.¹⁶ As of 2005, the bank had approximately US\$84,408,479 in assets.¹⁷ It is one of the largest banks in the country, with over 12 branches across the country and 189 points of sale, and the bank with the largest presence in rural areas in Rwanda. The bank has about 1 million clients, most of them in rural areas (68% of their clients), but in terms of dollars-worth in accounts, the amount is larger in urban areas.¹⁸

As for bancarization efforts, BPR recently launched an aggressive campaign to encourage savings. Bank officials see that the timing might be right, given that they just recently began to offer money transfer services, to combine their objectives and bancarize remittance recipients: “As BP, we have a big responsibility to bancarize our clients because we are everywhere.”¹⁹ Bank officials expressed that one of their biggest obstacles right now is to get funding to automate all of their branches (only 25 of them were automated as of January 2009). In some of the rural areas where the bank operates, there is no power, so the bank would need funding for power, equipment, staff, etc. Moreover, their server is over five years old, and they need to update and upgrade their technological capacities.

An important experience learned is that of the *Banque de l'Habitat du Rwanda*. The bank was established in 1975 as a limited liability company to act as a housing finance institution as well as a property developer in Rwanda. Its objectives include mobilizing and collecting housing savings through Housing Savings Plans and Housing Savings Accounts, as well as through Fixed Deposits and mobilizing internal and external long-term resources to channel into housing finance.²⁰ They offer a broad range of loans to their customers, and a special loans program to the Rwandan diaspora living abroad and wishing to own a home in Rwanda. This program has been in operation for two years. In addition to loans, savings plans and savings accounts are

¹⁴ BCR: <http://www.bcr.co.rw/per/diaspora.htm>

¹⁵ Ibid

¹⁶ Banque Populaire: <http://www.ubpr.co.rw/historique.htm>

¹⁷ See <http://www.ubpr.co.rw/RAPPORTANNUEL2005/Annual%20Report.pdf>

¹⁸ Interview with bank officials. Kigali: January 16, 2009.

¹⁹ Interview with bank officials. Kigali: January 16, 2009.

²⁰ BHR, 2008: <http://www.chr.co.rw/english/vision.htm>

also offered to them when they enter the program, and the other housing loan conditions are applied to them.²¹

As of January 2009, the bank had lent to approximately thirty people from the diaspora. Their average housing loan is of approximately RWF\$25 million, or US\$50,000 and they are usually for middle class clients.²² They have been advertising their program to the diaspora via their website and the Rwandan Embassy, but they have no other formal marketing campaign.

Non-banking financial institutions: Microfinance

Currently in Rwanda, microfinance institutions can only act as sub-agents of banks when it comes to money transfer services, but cannot pay remittances directly. None of them are doing so. Interviews with the microfinance institutions showed, however, a strong interest and desire to work in remittances and offer financial services. Nevertheless, these institutions lack the skills and resources needed to operate money transfers, as well as the tools to market financial products to remittance recipients. For partial purposes of this study, a random survey of 600 people was made to clients or neighbors of one of the microfinance institutions, showing that 10% of people receive remittances. The next section will discuss those results, and here we identify the institutions' interest in remitting.

Vision Finance Company (VFC) was founded by World Vision International's²³ program in Rwanda, World Vision Rwanda, in 1997.²⁴ By 2004, VFC became a separate legal entity regulated by the Central Bank of Rwanda and wholly owned by World Vision Rwanda. VFC offers various types of products to their clients, including cooperative loans, agricultural loans, individual loan and village phone leasing. Over 80% of VFC clients are rural and the majority of all clients, 61%, are women.²⁵ They have about 11,204 clients in their Kigali city branches and 11,696 in rural areas.²⁶ As of 2008, the bank had US\$2,568,378 in assets and a loan portfolio of US\$1,950,000.²⁷

Bank officials interviewed expressed a strong interest in offering remittance services to their clients, and mentioned they have started a dialogue with *Banque Commerciale du Rwanda* to

²¹ Banque de l'Habitat du Rwanda, 2008: http://www.chr.co.rw/english/loan_types.htm

²² Interview with bank officials. Banque de l'Habitat du Rwanda, Kigali: January 15, 2009.

²³ World Vision is a Christian humanitarian organization dedicated to working with children, families and their communities worldwide to address the causes of poverty through projects in health, education, food, water, and economic enterprise.

²⁴ Vision, 2008: <http://www.kiva.org/about/aboutPartner?id=117>

²⁵ Ibid

²⁶ Interview with bank officials. Kigali: January 16, 2009.

²⁷ Interview with bank officials. Kigali: January 15, 2009.

soon sign an agreement to pay as sub-agents (of Western Union).²⁸ Bank officials interviewed also agreed that “when (Rwandan) families get money (in remittances) from the diaspora, they definitely save” and see the diaspora as a source of investment for the country.”²⁹

One of the biggest problems facing the bank as of January 2009 was related to technology, since they still did not have an intranet system in place. Since July 2008, they have been requesting data lines to expand their network in rural areas, but they are still waiting for access. Currently, the government is focusing much of their efforts and human resources on establishing phone lines throughout the country instead. During a meeting with bank officials on January 16, 2009, the possibility of applying for funding from the African Development Bank to realize a project to modernize their systems and technology was discussed.³⁰

Urwego Opportunity Bank of Rwanda (UOB) is a fully regulated commercial bank in Rwanda, founded in June 2007, after a merger between *Urwego Community Banking S.A* (formerly a microfinance institution) and *Opportunity International Bank of Rwanda S.A* (a new microfinance commercial bank that acquired its banking license in August 2006 to operate in Rwanda).³¹ *Urwego* issued its first microloans in July 1997, and after operating for nearly a decade, it grew to become one of the leading microfinance institutions in Rwanda.³² As of 2008, the bank had 27 branches across the country, 33,692 credit clients (over 85% of them women), 9,138 savings accounts, and a portfolio of US\$3,241,511.³³ The bank is currently exploring ways to deliver banking services beyond conventional banking and considering the possibility of technology innovation for rural areas. Bank officials interviewed showed interest in the possibility of working with one of the leading banks in the country to act as a sub-agent and pay out remittances to its clients.³⁴ They believe that this would be a way to reach their objective of helping the poor in rural areas. They hope that cost reduction initiatives are introduced as they expressed concern for the lack of competition in the market (mostly a result of the prevalence of exclusivity agreements between money transfer companies and banks in the country).

Duterimbere (MFI) is a non-profit organization founded in 1991 that provides credit, loans, and business training to women throughout Rwanda. *Duterimbere* started a project to support foster mothers, who have extended themselves to care for orphaned children.³⁵ *Duterimbere* gives individuals and women's cooperatives working capital loans of around US \$150, and the

²⁸ Interview with bank officials. Kigali: January 16,2009.

²⁹ Interview with bank officials. *Vision Finances*, Kigali: January 14, 2009.

³⁰ Vision Finance meeting with Shem Kakembo, Kigali: January 16,2009.

³¹ *Urwego*: <http://www.uomb.org/>

³² Ibid

³³ *Urwego Opportunity Bank*, 2008: <http://www.uomb.org/>

³⁴ Interview with bank officials. *Urwego Opportunity Bank*, Kigali: January 15,2009.

³⁵ See: <http://www.peacebuildingportal.org/index.asp?pgid=9&org=2857>

women repay the loans at a low rate of interest over a period of 12 months.³⁶ As of 2008, the bank had about 5 branches across the county, 33,021 clients and about US\$405,603 in deposits.³⁷ When asked about the possibility of offering money transfer services to their clients, bank officials said they are very interested in doing so, but that currently their intranet systems are not in place.³⁸ They need to modernize them and then they will be prepared to do so. They estimated that by March 2009, they may have all of their systems computerized.

These microfinance institutions would have the capability to participate in remittance transfers as well as to offer financial products to clients and increase the supply for an already existing demand. Their capability however will depend on fulfilling certain factors relating to technology, cash flow, compliance, staff training, as well as geographic presence. The next section looks into these issues as it explores the intersection between remittances, finance and microfinance.

Table 8: Basic profile of financial institutions in Rwanda

Bank	Branches	Assets (US\$)
Banque Commerciale du Rwanda	10	4,357,421
Banque de Kigali	11	217,917,142
Ecobank	12	79,886,855
Fina Bank	6	48,139,771
Banque Populaire du Rwanda (BPR)	12	84,408,479
Banque de L'Habitat du Rwanda (BHR)	1	2,651,980
Duterimbere		1,522,626
Vision Finance Company		2,568,378
Urwego Opportunity Microfinance Bank (UOMB)	28	3,241,511

Source: data administered by author, 2008.

b. Financial intermediation and remittance recipients

To most accounts and evidence financial access in Africa is relatively low, some people arguing that less than 20% of people own savings accounts. Similarly, and particularly in the experience of Rwanda the clarity of who receives remittances, how much, and their effect on household's asset building choices is limited. Moreover, the role of microfinance has also been brought into the discussion of remittances as it relates to development.

³⁶ Ibid

³⁷ Interview with bank officials. Kigali: January 16, 2009.

³⁸ Interview with bank officials. Kigali: January 16, 2009.

In that light we analyze these issues based on a household survey of 600 people who are clients of an MFI and 400 who reside near branches of an MFI. The survey was carried out in coordination with the research team of Vision Finance Company and asked questions on four main issues: personal finance, demographics, migration and remittance issues. The survey results show that 26% of people interviewed have a relative abroad and that 10% receive remittances.

Among those receiving remittances people were receiving about US\$200 four times a year. This increased their earnings to US\$800 more in income, plus showed savings of US\$250 over US\$200 among non-recipients. Also important is that the percentage of those saving was higher among those receiving remittances, though the methods employed were relatively similar.

Table 9: People who receive remittances

	Receives remittances	
	No	Yes
Percent who saves	44	56
Amount Saved in cash	205	246
Remittances received a year		800
Annual Income	2039.01	1924.48

Source: VFC survey, 2008.

Table 10: Savings method

Saving method	Receive remittances	
	No	Yes
Savings Account	63	62
Medical Insurance	71	51
Animals	68	51
Save Extra Earnings	55	45
Invest Extra Income	50	44
Save Leftover Income	55	42
Extra Job	49	40
Durable Goods	38	35
Checking Account	26	15
Shared Account	26	13
Merchandise	12	13

Source: VFC survey, 2008.

About the profile of remittance recipients

Remittance recipients are divided almost evenly across genders, though a slightly greater percentage of females indicate that they receive remittance from abroad: 54 percent of remittance recipients are women and 46 percent are men. Among the clients of the microfinance institution that were surveyed, 11 percent of them receive remittances. Looking at their neighbors in nearby communities, the percent was lower, 8 received remittances. Overall, a greater proportion of recipients are located in rural areas outside the capital city (see Table 11).

Table 11: Geographic location of recipients

Location	Does Not Receive	Receives Remittances
Non-capital	79	90
Capital	21	10

Source: Vision Finance survey, 2008.

The average age of Rwandans who receive remittances from abroad is 34 years of age, same as those who do not receive. As for education levels, survey results indicate that recipients tend to have a higher level of education than non-recipients (see Table 12).

Table 12: Level of education among recipients and non-recipients

Level of Education	Does Not Receive (%)	Receives Remittances (%)
No Schooling	7	6
Primary School	48	27
Middle School	20	17
High School	15	25
Some University or Tech. School	6	15
University or Tech. School (Completed)	4	10

Source: Vision Finance survey, 2008.

On average, Rwandans receive \$US200 four times a year and they have been receiving remittances for the past 2 and half years. When asked whether they have any plans to migrate, a higher percentage of recipients indicated that they are considering migrating in the future (35 percent) compared to non-recipients (only 3 percent), as indicated in the table below.

Table 13: Plans to migrate

Plans to Migrate	Does not Receive	Receives Remittances
No	97	65
Yes	3	35

Source: Vision Finance survey, 2008.

4. Lessons learned and recommendations for next steps

Rwandan migration abroad seems to be regarded as widespread, however, limited information and data exist to confirm it. This report finds significant issues worth exploring in the policy realm of international cooperation. Of particular importance we find that there is uncertainty about the number of migrants living abroad and the amounts remitted to Rwanda. Official figures are difficult to discern and in need of greater methodological and technical support to improve their numbers. However, independently from the amounts received, the current state of the marketplace for transfers, whether it is in terms of RSP competitors or payout businesses in Rwanda, the results show a very restricted market constrained by few competitors for remittance transfers, regulations that tacitly limit payout to banks, banks that have poor coverage nationwide, costly transfers and underutilization of microfinance institutions. Moreover, there exists little financial intermediation, with the exception of two instances where there are initiatives to reach out to the Rwandan community living abroad, typically referred to as the 'Rwandan diaspora'.

We propose to look into a series of policy options with important implications for local development in Rwanda. These options suggest the provision of technical assistance to the Central Bank, support to review regulations and competition on money transfers, including enhancing the capacity of MFIs to operate money transfers, and cooperation to expand financial services to remittance recipients and the diaspora through alternative mechanisms such as financial product design, a loan fund, and finally help develop the diaspora outreach office of the foreign affairs ministry. Here we elaborate on the recommendations.

a. Improving data collection on remittance transfers

Rwanda's Central Bank is similar to many in other countries in the world, which are also facing technical difficulties in measuring actual flows. The reasons stem from a number of factors including the identification of the size of the emigrant population, particularly those who migrated for economic reasons. Other difficulties stem from lack of methodologies to identify and measure the size of informal markets and networks, properly collecting and validating data from licensed sources like banks or money transfer operators.

During a meeting with officials from the Central Bank of Rwanda, including the governor of the bank, several points about the market for money transfers in Rwanda, remittance flows and migration were discussed. Officials expressed their concern regarding the measurement of

remittance flows to Rwanda.³⁹ They raised the issue of adopting a standard and an improved methodology for measuring these flows.⁴⁰

To that effect, an option to support the Bank in this area consist of providing a technical assistance grant to receive expert advise on conducting and measuring techniques on foreign currency transfers, and to carry out nationwide household surveys on migration and remittances. The costs of nationwide surveys may be too expensive at times depending on how they are carried out and who takes charge of them. The proposed option is to provide a three year grant for US\$250,000 to carryout three surveys, one each year and receive technical expert advise to design, analyze and measure flows through fieldwork research. Measurement of flows is done not only through survey data but by validating official inflow information and reviewing their attributes (average amounts, frequencies received, geographic distribution, etc.). In addition to technical advise on the ground, Central Bank personnel can benefit from fieldtrips to other countries where measurement has proven successful or achieved important results. Finally, survey administration costs may range in various directions, however for the purposes of an initial exercise to improve methodologies and data collection, US\$70,000 a year for a household survey to 1500 people can meet the immediate needs of the bank. Resource capacity and costs permitting the fund could provide enough money to cover two surveys per year.

b. Revisit and monitor exclusivity agreements

Reviewing banking regulations on who is authorized to pay is critically important as is to review the role of microfinance as payers and the impact of exclusive agreements. On the latter case, exclusivity is a critically important issue that needs reform. Exclusive agreements are contracts that prevent banks from forming partnerships with other providers.⁴¹

During meetings with government officials particularly from the National Bank of Rwanda, the issue of competition, specifically relating to the prevalence of exclusivity agreements in Rwanda, was also discussed. The option of prohibiting such agreements in the future (through an official recommendation by the Central Bank Authorities as it has been done in other African countries) was brought to the table. Bank officials recognized that there is a problem of

³⁹ Central Bank Meeting. Kigali: January 16, 2009.

⁴⁰ In order to estimate annual remittance flows, the Central Bank of Rwanda uses figures from MTOs, banks and the Foreign Exchange Bureaus in the country.

⁴¹ Exclusive agreements are contracts that contain clauses preventing a convening party from partnering with other service providers in the same line of business. These agreements can have effects on the formation of monopolistic control in certain markets, as is the case of money transfers.

competition in the market, and that there is a monopoly that has resulted from these agreements.⁴²

Support to the government of Rwanda concerning the effect of these agreements includes learning from other countries' experiences, Nigeria in particular, in controlling or eliminating them to avoid monopolies.

c. Promote competition both among RSPs and payers

Competition for money transfers is a healthy practice because it allows for a larger number of players to participate in the business, thus helping reduce transaction costs. It also helps individuals to have access to a larger pool of financial services. In order to promote competition two parallel strategies are to be implemented, and accompanied to existing restrictions resulting from exclusive agreements. First, a trade fair on international money transfers to Rwanda can motivate other competitors participating in Africa and elsewhere including companies that have been in the business for many years, emerging businesses with proven business models, including non-traditional RSPs such as internet, card based or account to account transfer companies. This fair will allow for an interaction between RSPs and payers and will enable them to explore ways to cooperate and establish agreements to expand the inflow of money to Rwanda. One effect will be to significantly reduce informality and costs of remitting through the formal system. The second strategy consists of authorizing nonbanking financial institutions to participate in the payout of remittances. In particular, the institutions to consider include microfinance institutions, foreign exchange bureaus and other savings banks. The authorization of these institutions should follow compliance to the existing rules applied to banks with additional requirements that would not put an unfair burden on the institutions. Those requirements include considerations about branch capacity to have cash flows to pay at least three transfers a day, hardware and software capable to receive secure data on international wire transfers, trained staff to conduct payment of foreign currency, institutional capacity to comply to domestic and international rules on financial crime prevention (including anti-money laundering laws).

d. Financial literacy promotion

Financial literacy has yielded important results in improving financial access; however, few efforts have focused on educating remittance senders or recipients in order to expand their knowledge about financial instruments. International cooperation can enhance the means to achieve financial access through financial literacy. A recent pilot program on financial literacy performed during a six-month period in Moldova with 7,000 remittance recipient clients

⁴² Central Bank Meeting. Kigali: January 16, 2009.

showed that 80 percent of those receiving financial education expressed an interest in having financial services. Moreover, the results of an intake evaluation form showed a strong correlation between owning a savings account and having prior knowledge of financial issues (Orozco 2008ILO).

The lessons learned from other experiences have shown that implementing financial literacy as a tool to get people into financial institutions has important payoffs, including raising deposits of the institution, increasing credits to the community and significantly raising revenue for the businesses performing the work. We propose a method on financial literacy (see appendix for financial literacy module) intended to insert remittance recipients into the financial system that educates and markets financial products simultaneously, relying on educators at locations where money is withdrawn. Cooperation on this line item does not exceed the amount of US\$100,000. This exercise can be extended not only to remittance recipients but to anyone in society conducting typical bill pay transactions at a financial institution.

e. Financial product design and marketing

Among the lessons learned about leveraging remittances to promote development, is the role of technical assistance support to financial institutions to design and market new or existing financial products to remittance clients. The experience of the Inter-American Development Bank as well as that of the International Fund for Agricultural Development grant facility on remittances shows that supporting financial institutions to work on financial product design, marketing tools and IT modernization proves to be an efficient way to leverage remittances.

This priority includes learning from other institutions what strategies have worked, but also doing client fieldwork to learn what their financial preferences are, or where their financial needs lie. Several products have been developed and successfully introduced into the 'remittance client' market. Among those products strictly tailored to remittance recipients are savings products, home improvement loans, as well as insurance products such as remittance insurance. Other examples that are increasingly emerging but need refining are remittance-backed financial products. Many institutions are considering remittance receiving as part of a demonstrated history of earnings, which is used to assess and approve credits. However, most institutions lack the proper design of an assessment method to estimate risk or opportunity costs. Designing a remittance-backed tool for credit or cash advances could bring benefits to recipients and institutions.

Funding to individual institutions can range from US\$100,000 to US\$250,000 to enhance their ability to reach out to the remittance market in order to convert people from remittance clients into bank or microfinance clients.

f. Diaspora housing loan fund

Immigrants and their relatives, independently, seek to invest in housing as part of an organic asset building strategy among households, once a savings base has been established. The *Banque de l'Habitat du Rwanda's* experience in offering loans to migrants sets the stage for further collaboration. The way the bank currently provides these loans is done mostly through the web or by word of mouth. International cooperation can strengthen the bank's ability to reach out to the diaspora but also to remittance recipients. The cooperation can focus on two particular areas a) technical assistance to develop and improve marketing tools to reach out to the diaspora; b) a loan fund to provide ten loans a year. In the first case, marketing is needed to reach out to migrants and their families about mortgage or home improvement loans. Marketing to diasporas is not an easy task and involves cooperation with other institutions, particularly those outside Rwanda. In the second case, a loan fund can be established to support the bank to carryout its marketing strategy. One of the main obstacles the bank has been facing is a lack of long-term funding for their project, particularly loans to increase their credit lines. International cooperation could support the bank's program with the diaspora through both a grant (which could be used for marketing strategies) and loans (that can act as a warranty and long term funding).

g. Support the new diaspora office

The Rwandan government created an outreach office with the purpose to engage its communities abroad. The office is relatively new (June 2008), and it is known as the Rwandan Diaspora General Directorate. The functions of the directorate have been defined along outreach and development promotion in Rwanda and include the following components.

- To mobilize resources for economic development;
- To uphold and promote Rwandan cultural values among the Diaspora, especially among the youth
- To promote national unity and cohesiveness as well as to build awareness and patriotism of the ancestral home among the Diaspora;
- To create enabling environment for financial investment and remittances, trade, creation of development and investment funds and clubs, capacity building, human resource development through knowledge and skills transfers;
- To galvanize and encourage the Rwandan Diaspora to promote and engineer development in the fields of technical specialization and technology for a progressive and developed modern Rwanda;
- To build partnerships with both national public and private institutions as well as international and UN agencies with the view to integrate the activities and initiatives of the Diaspora into national social and economic programs of their Motherland;
- To provide credible information and data on opportunities available in their home country and on socio-economic and political development and vents taking place inside the country;

- To coordinate and harmonize the activities and initiatives of Rwandan Diaspora in Rwanda;
- To advise the policy makers on issues related to Diaspora.⁴³

The directorate has a new team focused on coordinating diaspora outreach policy. They work with a global umbrella network made up of about sixty five diaspora associations worldwide.⁴⁴ Still, they have yet to operationalize their goals and are resource constrained. The team and objectives are critically important, albeit ambitious. The directorate, like the National Bank of Rwanda, lacks concrete knowledge of the size of their community abroad (native born, or foreign born Rwandan descendants). Therefore one important piece of collaboration can consist of a) supporting the directorate to learn in more detail about the Rwandan diaspora by carrying out surveys about the emigrant population. The support should not be different to that proposed to the National Bank of Rwanda, thus it would maximize resources. Thus, the directorate can participate on the elaboration of migration related questions into the survey, and receive additional expert advise on diaspora communities, and survey elaboration. Additional support may include b) fieldtrips to learn about other initiatives worldwide and small survey data collection at selected Rwandan consular offices. One initiative of importance at global scale is that of the Institute of Mexicans Abroad.

These initiatives in total may amount US\$645,000

Total support plan:

- a. Improving data collection on remittance transfers: 250,000
- b. Revisit and monitor exclusivity agreements: 5,000
- c. Promote competition both among RSPs and payers: 15,000
- d. Financial literacy promotion: 100,000
- e. Financial product design and marketing : 150,000
- f. Diaspora housing loan fund (marketing tool support): 50,000
- h. Support the new diaspora office: 75,000

⁴³ "Rwandan Diaspora Policy" Report by the Diaspora General Directorate. Kigali: January 16, 2009.

⁴⁴ Ministry of Foreign Affaire. Meeting. Kigali: January 16, 2009.