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Financial Inclusion in Rwanda: an Analysis of Role Played by Commercial Banks

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Abstract: The purpose of this research is to analyze the role played by commercial banks on financial inclusion in Rwanda. Rwanda which is seen as a model of fast development in Africa has set a target of 90% financial inclusion by the year 2020. This target was almost achieved in 2016 where 89% were financially included but only 26% have accounts with commercial banks. This study reveals that all the three dimensions of financial inclusion i.e. access, penetration and usage of commercial banks have increased from 2004 to 2016. This research found that almost 40% of respondents have accounts in the commercial bank. The rest of respondents have accounts either in microfinance institutions or in SACCOs. The findings show again that 67.7% of people who took loans, took them from commercial banks. Although commercial banks play a great role, there is a long way to go for Rwanda to be formally included because only 26% have an account in commercial banks according to Finscope Survey 2016. On this matter, the government of Rwanda should put more efforts to computerize MFIs and SACCOs as they serve 65% of the population in Rwanda. The government of Rwanda should set policies that support microfinance and SACCOs for them to offer better services at the standards of commercial banks as this would help in having a big number of citizens formally included and it may contribute to its economic growth.

Keywords: Financial inclusion, Commercial banks, Rwanda

1. Introduction

Rwanda has got many reforms both politically and financially. This country went through the dark period of genocide against Tutsi that killed more than 1 million citizens in 3 months only. In spite of this, Rwanda has got tremendous growth and it is seen as an example of development in Africa. The economic growth of Rwanda has been increasing year by year and it is averaged to 6.9% from 2011 to 2015(BNR, 2016).

This is might be the results of vision 2020 set by Rwanda in 2000. The Vision seeks to fundamentally transform Rwanda into middle – income country by the year 2020. This will require achieving per capita income of US$1240 from US$595 in 2011; a poverty rate of 20% from 44.9% in 2011; and an average life expectancy of 66 years from 49 years in 2000(the Republic of Rwanda, 2000).It is in this vision 2020 that the target of 90% of Rwandans being financially included by the year 2020 is set. As shown in the Monetary Policy and Financial stability report by Banque Nationale du Rwanda, banking and insurance sector increased by 28.2% comparing 2014 and 2015(BNR, 2016).

The topic of financial inclusion has gained importance among international bodies, such as the UN and the Group of Twenty (G-20). In May 2013, the UN High-Level Panel presented the recommendations for post-2015 UN Development Goals, which included universal access to financial services as a critical enabler for job creation and equitable growth. In September 2013, the G20 reaffirmed its commitment to financial inclusion as part of its development agenda(Ayana Aga & Martinez Peria, 2014).

The issue of financial inclusion as Ayana and Martinez show in their research, is particularly important for Sub-Saharan Africa, given that on average only 24 percent of the population have accounts with formal financial institutions. In contrast, 55 percent of adults in East Asia, 35 percent in Eastern Europe, 39 percent in Latin America, and 33 percent in

South Asia have accounts. Rwanda being part of Sub-Saharan Africa and having set high targets for financial inclusion, it is of paramount importance to know what commercial banks have contributed to financial inclusion in this country. The purpose of this research is to know the role played by commercial banks on financial inclusion in Rwanda.

2. Literature Review

Globally, financial inclusion is a major policy concern with governments across the world. The lack of access to a large percentage of working age adults to the formal financial sector is a genuine global policy concern(Arun & Kamath, 2015).Financial inclusion has attracted the interest of many researchers and different definitions about it have been given. According to Sarma & Pais(2011), financial inclusion refers to a process that ensures the ease of access, availability, and usage of the formal financial system for all members of an economy. The same definition was given by Bhanot et al(2012) defining it as the process of ensuring access to financial services (savings, insurance, remittance, payments, etc.) and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost. From the above definitions, it is seen that financial inclusion has been a matter of discussion by different authors as there is no common definition of this important topic. What is common from many authors that financial inclusion is about having basic financial services to all group of society. By basic financial services, one should understand at least having an account in a formal financial institution.

The importance of financial inclusion is undoubtedly shown by many researchers. According to Ashraf, Karlan, & Yin (2010), financial inclusion leads to female empowerment and it increases savings. Yang's research shows that savings increase economic growth(Yang, 2012). A big number of researchers have shown that inadequate access to finance leads to inequality and poverty (Banerjee & Newman, 1993; Galor & Zeira, 1993; Aghion & Bolton, 1997). From their idea, one can say that lack of access to finance hinders economic growth and development. This is again supported by Bruhn and Love (2014), who said that financial inclusion contributes to poverty reduction and economic growth. Access to the formal financial system can increase asset ownership and serve as a catalyst to greater economic empowerment among women. Even a basic financial tool such as a deposit account at a formal financial institution can be of great value. A formal account provides a safe place to save and creates a reliable payment connection with family members, an employer, or the government. It can also open up channels to formal credit critical to investing in education or in a business(Demirgüç-Kunt, Klapper, & Singer, 2013).

Although financial inclusion is important, it has barriers as show by Allen et al (2016). Fixed transactions costs and annual fees tend to make small transactions unaffordable for large parts of the population. To maintain a checking account in Sierra Leone, for example, an adult must pay the equivalent of 27 percent of that country's GDP per capita in annual fees, which is likely a reason why 44 percent of non-account-holders in that country cited cost as a reason for not having a formal account. But fixed fees and high costs of opening and maintaining accounts also often reflect lack of competition and underdeveloped physical or institutional infrastructure(Allen, Demirguc-Kunt, Klapper, & Peria, 2016). Another important barrier as shown by Allen et al (2016) is documentation requirements. By limiting eligibility, these may exclude workers in the rural or informal sectors, who are less likely to have wage slips or formal proof of domicile. Because of legitimate concerns about fraud and money laundering, however, there is a reasonable limit to how much documentation requirements should be relaxed, and this line likely varies across countries. Documentation is more likely to be reported as a barrier in countries with a smaller share of government-owned banks and a greater share of foreign-owned banks. This suggests that financially excluded individuals may perceive foreign (government) banks as more (less) likely to have more stringent documentation requirements.

According to FinScope (2016), 89% of adults in Rwanda are financially included (including both formal and informal financial inclusion). About 68% of adults in Rwanda use formal financial products or services, including banked and other formal (non-bank) financial products or services. 65% of adults in Rwanda use other formal but non-bank financial products or services. The same report shows that only 26% of adults in Rwanda are banked. This poses a problem of showing a high number of financially included (89%), while only 26% of adults are banked in Rwanda.

According to Sarma (2008), there are 3 dimensions of financial inclusion:
• The first dimension is bank penetration which is measured by the number of deposit accounts per 1,000 population and number of credit accounts per 1,000 population.
• The second dimension is availability of banking services or simply access and it is measured by bank branches per 1,000 km, bank branches per 1,000 adults, ATMs per 1,000 km and ATMs per 1,000 adults

• The third dimension is usage and it is measured by outstanding deposit percent GDP and outstanding credit percent GDP

The above dimensions and variables to measure financial inclusion have been used widely by different authors such as (Kodan & Chhikara, 2013; Gupte, Venkataramani, & Gupta, 2012; Chakravarty & Pal, 2013; Sharma, 2016). As shown by these dimensions, measuring financial inclusion became easier. The issue is that most all these dimensions can be measured by only formal financial services. This study aims at knowing the role of commercial banks on financial inclusion in Rwanda. The focus is on financial inclusion because as per definition, financial inclusion is the use of formal accounts(Allen et al., 2016). As shown by Rwanda Finscope survey 89% of the population is financially included but only 26% are banked. This study focuses on commercial banks to know what they contribute to financial inclusion in Rwanda.

3. Methodology

This research has the purpose of assessing the role played by commercial banks on financial inclusion in Rwanda. Primary data collected from 500 respondents from 4 provinces and the city of Kigali were used in this research. Secondary data from IMF financial access survey were also used to know the overall financial inclusion level in Rwanda as per the data collected from standard indicators of financial inclusion. In addition to this, data from Finscope survey 2016 were used to know the contribution of commercial banks to financial inclusion in Rwanda.

4. Results and Discussion

It is worth noting that there are different sources of data for financial inclusion. As far as our case is concerned, we have used only IMF financial access survey data and Finscope survey 2016 as secondary data to support data collected on the field from 500 respondents in July, 2017. The questionnaire was distributed in 4 provinces (Northern Province, Southern Province, Eastern Province and Western Province) of Rwanda and the city of Kigali.

Table 1: The current situation of financial inclusion in Rwanda

Year	Access				Penetration		Usage	
	Automated Teller Machines (ATMs) per 1,000 km^2	Automated Teller Machines (ATMs) per 100,000 adults	Branches of commercial banks per 1,000 km^2	Branches of commercial banks per 100,000 adults	Deposit accounts with commercial banks per 1,000 adults	Loan accounts with commercial banks per 1,000 adults	Outstanding deposits with commercial banks (% of GDP)	Outstanding loans with commercial banks (% of GDP)
2004	0.08107	0.039185	0.810701	0.391847	7.395331	0.520569	12.24377	8.039812
2005	0.486421	0.229054	1.621403	0.763515	8.688795	1.215706	7.029584	9.70289
2006	0.486421	0.222886	1.580867	0.724379	10.43626	1.004844	12.4512	9.851107
2007	0.648561	0.289629	2.391569	1.068006	23.70755	1.425154	14.34304	10.5822
2008	0.891771	0.388486	10.49858	4.573539	188.5361	1.806989	14.37149	14.30241
2009	1.905148	0.80908	11.55249	4.906124	217.0005	3.340468	13.91482	11.58284
2010	3.404945	1.407638	11.87677	4.909975	267.6308	6.771408	15.49483	10.38701
2011	6.769355	2.725671	13.57925	5.467664	290.307	8.95636	16.70751	11.28715
2012	11.83624	4.633255	14.38995	5.632895	332.6096	10.26218	16.48624	13.38883
2013	13.53871	5.14594	15.68707	5.962511	303.4812	14.61401	17.5696	13.47695
2014	14.95744	5.519301	15.80867	5.833408	242.7873	34.17285	19.06719	14.66244
2015	15.40332	5.519545	17.02473	6.10055	198.8275	35.15297	20.40679	16.87866
2016	16.21403	5.638235	17.71382	6.159772	235.4251	29.10189	19.33359	17.20586

Source: IMF, 2017

Table 1 shows that the level of financial inclusion has been improving since 2004 to 2016. For example, ATMs per 1,000 km2 increased from 0.08 to 16.21.There is a tremendous improvement in increase of ATMs per 1,000 km2 as they increased by 500% from 2004 to 2005; No increase from 2005 to 2006; increased by 33.33% from 2006 to 2007; 37.5% from 2007 to 2008; 113.6% from 2008 to 2009; 78.7% from 2009 to 2010; 98.8% from 2010 to 2011; 74.8% from 2011 to 2012; 14.4% from 2012 to 2013;10.4 from 2013 to 2014; 2.98% from 2014 to 2015 and 5.26 fro, 2015 to 2016. All the dimensions as summarized in table 1, show that financial inclusion has been improving from 2004 to 2016. Although there is an increase in financial inclusion especially from commercial banks, there is a long way to go for Rwanda to be financially included formally.

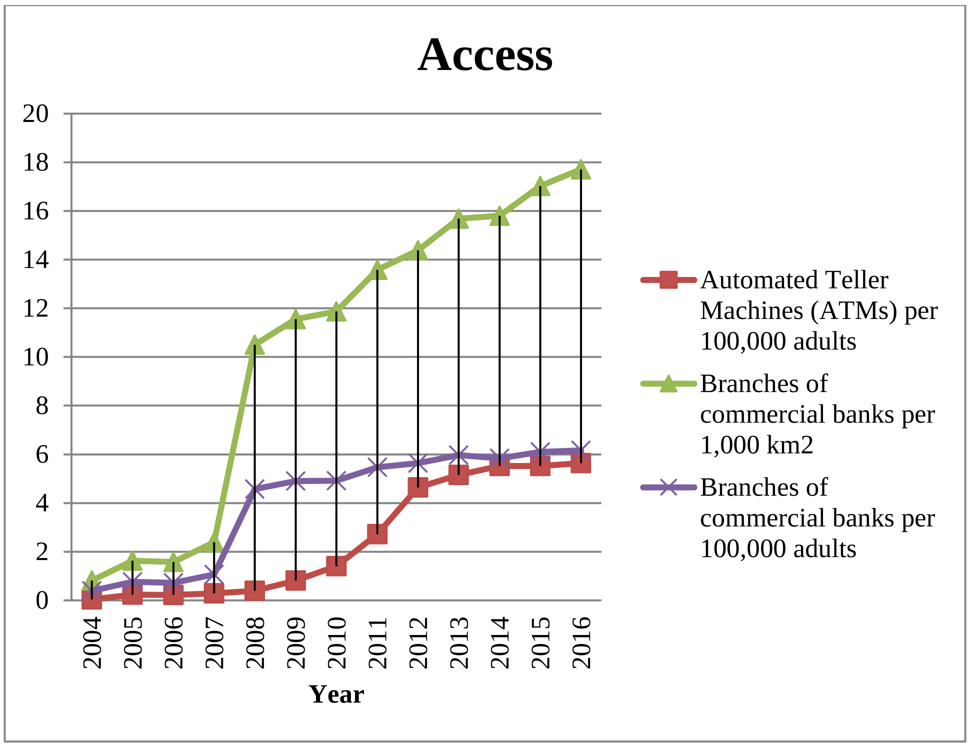

Figure 1: Access to commercial banks in Rwanda
Source: IMF, 2017

The first dimension of financial inclusion as shown by (Sarma, 2008) is access to banking services. All the indicators i.e Automated Teller Machines (ATMs) per 1,000 km2, Automated Teller Machines (ATMs) per 100,000 adults, Branches of commercial banks per 1,000 km2, branches of commercial banks per 100,000 adults had shown an increase as highlighted by figure 1. Automated teller machines have increased from 2004 to 2016 but bank branches have remained almost constant from 2014 to 2016.

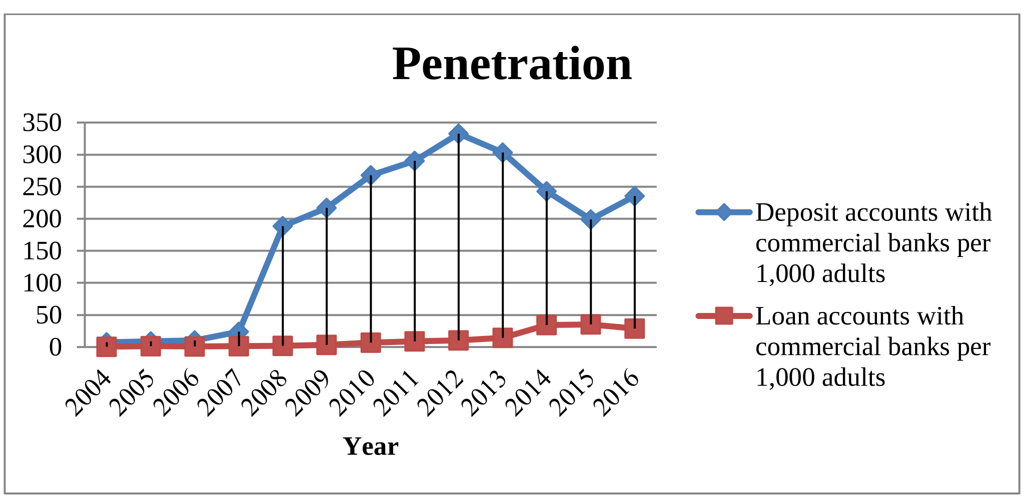

Figure 2: Penetration of commercial banks in Rwanda
Source: IMF, 2017

As far as penetration is concerned, it is seen that the number of deposits accounts with commercial banks have increased to the high extend from 2004 to 2012. From 2012 to 2015, the number of accounts started decreasing but gradually increased between 2015 and 2016. This might have been caused by the new regulation of the central bank asking commercial banks to close inactive accounts for customers. Figure 2 clearly shows that the number of accounts kept on increasing in general. Another indicator of penetration which is loan accounts per 1,000 adults shows a very small increase from 2004 to 2016.Only that in 2015 the loan accounts decreased and continued to increase from 2015 to 2016.

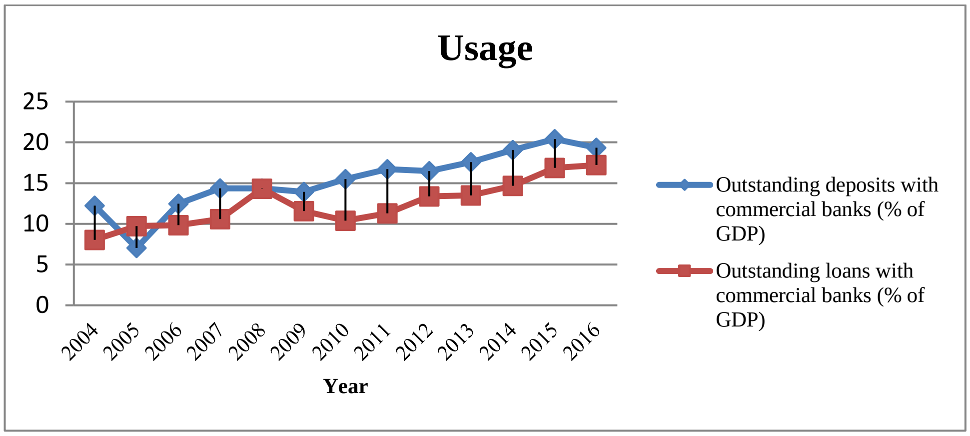

Figure 3: Usage of commercial banks in Rwanda
Source: IMF, 2017

Figure 3 shows the usage of commercial banks services. It is an important dimension of financial inclusion as it compares outstanding deposits and loans with GDP. This shows the contribution of commercial banks to the economic growth as shown by (Sharma, 2016). In Rwanda, commercial banks have had a great contribution to financial inclusion as both outstanding deposits with commercial banks and outstanding loans with commercial banks have increased from 2004 to 2016.

From figure to figure 3, it is revealed that commercial banks have significantly contributed to financial inclusion in Rwanda from 2004 to 2016.All the three dimensions of financial inclusion have shown an increase in the period of our study.

It is not enough to look at the IMF data and conclude that commercial banks play a role in the final conclusion in Rwanda. It is in this context that the analysis of primary data is done to know whether commercial banks contributed to financial inclusion in Rwanda.

From data collected on the field, among 500 respondents from 4 provinces and the city of Kigali, we have found the following:

• Account ownership by financial institutions

On the question of whether respondents have a bank account, 72% of respondents responded that they have a bank account, 28% do not have a bank account. Among those who have the bank account, 38.8%; 28.6% have an account in Microfinance institution and 32.5% have an account in SACCO.It is worth noting that commercial banks have a great percentage in comparison with microfinance institutions and SACCOs. SACCOs have been initiated by the government of Rwanda for the purpose of financially including more citizens. This is why in each sector among 416 sectors in Rwanda there is UMURENGE SACCO. This means that there are 416 UMURENGE SACCOs in the country. The fact that these reach villages where commercial banks should not reach, it makes them have a high percentage of account ownership in general.

• Loans distribution by financial institutions

The question about whether respondents have taken a loan or not, 71.8% have not taken the loan and only 28, 2% have taken a loan among 500 respondents. Among those who took loans 67.7% took Commercial Bank loan, 27.8% took microfinance loan and only 4.5% took SACCO loan.

5. Conclusion

The objective of this study is to know the role played by commercial banks on financial inclusion in Rwanda. Secondary data from IMF on dimensions of financial inclusion were used taking into consideration 13 years from 2004 to 2016. Primary data collected on 500 respondents from Rwanda were used to know if commercial banks contributed to financial inclusion in Rwanda. Our findings revealed that commercial banks played a great role in financial inclusion in Rwanda. This is supported by the fact that all the three dimensions of financial inclusion i.e. access penetration and usage have shown an increase from 2004 to 2016 as highlighted in figure 1, 2 and 3 respectively.

On the questionnaire used to know whether commercial banks play a role in financial inclusion in Rwanda, we found that almost 40% of respondents have accounts in the commercial bank. The rest of respondents have accounts either in microfinance institutions or in SACCOs. This shows a great importance of commercial banks as they still have a big market share in bank account ownership although there are many SACCOs and MFIs in Rwanda. As far as loans are concerned, 67.7% of people who took loans, took them in commercial banks. This shows the role played by commercial banks on financial inclusion in Rwanda. From the discussion above, we conclude that commercial banks play a great role in financial inclusion in Rwanda. Although commercial banks play a great role, there is a long way to go for Rwanda to be formally included because only 26% have the account in commercial banks according to Finscope Survey 2016. 65% are formally included but in other institutions formal but non-bank. This poses a problem as microfinance and SACCOs in Rwanda charge more interests than commercial banks. This might be the reasons why 67.7% of people who took loans took them from commercial banks. The government of Rwanda should set policies that support microfinance and SACCOs for them to offer better services at the standards of commercial banks. For example, if SACCOs and MFIs would be computerized, the number of ATMs per km2 would increase and better services would be offered to villagers and the objectives of financial inclusion would be achieved. Mobile banking which is inducing financial inclusion should be introduced in MFIs and SACCOs as a big number of citizens in Rwanda have the mobile payment account. In case the policies for strengthening MFIs and SACCOs are set and well implemented, this would boost the economic growth of Rwanda.

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