



Rwanda: Financial Sector Development Program (FSDP)

Overview

The Financial Sector Development Program (FSDP) in Rwanda (Phase I and II projects) was supported by the Financial Sector Reform and Strengthening (FIRST) Initiative, a multi-donor grant facility that provides technical assistance to promote financial sector strengthening. The government mobilized more than US\$30 million from other development partners and together with the World Bank-financed Competitiveness and Enterprise Development Project (CEDP), more than 100 actions in banking, pensions, capital markets, payments system, and accounting and auditing have been implemented to date. As a result, the banking system is sounder and more competitive and asset quality has improved quite dramatically. Regulation and supervision have strengthened considerably, and there has been comprehensive legal and regulatory reforms, and significant growth in insurance, pensions and capital markets.

Challenge

Financial sector development was always a high priority for the Government of Rwanda, which sees it as an integral element of its long-term plan to transform Rwanda into a middle-income country and an economic trade and communications hub. In the last decade, Rwanda, like most other countries in Sub-Saharan Africa, has followed an economic liberalization program with privatization of the financial sector to reduce financial repression, encourage market-determined prices for financial services, encourage entry of international players, and enhance market competition.

However, despite all the reforms, the Rwandan authorities recognized that the financial sector's ability to play its role in mobilizing savings, conducting effective intermediation, and financing its ambitious economic reform agenda was still far from achievable. Following a 2005 Financial Sector Assessment Program (FSAP) report prepared jointly by the World Bank and the International Monetary Fund (IMF), which diagnosed and recommended solutions for a number of weaknesses in the financial sector, the Rwandan government needed a plan for implementing the recommendations in a systematic way. This need resulted in the preparation of the Financial Sector Development Program (FSDP), financed by the FIRST Initiative with



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100
more than 100 stand-alone elements of FSDP action plan successfully implemented.

10,000

technical assistance from the World Bank Africa Finance and Private Sector Development unit.

around 10,000 payment instructions per day are processed on the Automated Transfer System (ATS).

Approach

The first phase of the FSDP financed by FIRST (Phase I project), approved in 2006 and completed in 2007, was designed to prepare an action plan that prioritizes the areas of technical assistance. Afterwards, FIRST financed a second phase of the FSDP (Phase II project), approved in 2008 and completed in 2010, to provide technical assistance required to implement selected financial sector reforms outlined in the plan, in particular to assist the National Bank of Rwanda in drafting a Pension Law, Collective Investment Scheme Law, and to strengthen the National Payments System.

Results

Results of the FSDP Phase I:

- Preparation of an FSDP action plan that prioritized the areas of technical assistance to implement recommendations for financial sector development outlined in the FSAP 2005, with more than 240 stand-alone actions.
- Rwanda's Ministry of Finance established an FSDP management unit to oversee implementation of the action plan and coordinate donor support.

MORE INFORMATION

- » FIRST Initiative
- » FIRST Initiative: Financial Sector Development Program, Phase I (2006-2007)
- » FIRST Initiative: Financial Sector Development Program, Phase II (2008-2010)
- » Financial Sector Development Program (FSDP): The Case of Rwanda
- » World Bank: Competitiveness and Enterprise Development Project (CEDP)
- » African Development Bank: Competitiveness and Enterprise Development Project (Phase II)

The Government of Rwanda presented the action plan to its development partners in 2007, seeking financial and technical assistance for implementation. As a result, several donors made commitments of financing or technical assistance in excess of **US\$30 million**:

- World Bank: The Competitiveness and Enterprise Development Project focused on microfinance; modernization of payment systems and non-bank financial institutions (NBFIs) and accounting and auditing (US\$6 million).
- International Finance Corporation (IFC): Technical Assistance to prepare a legal framework for credit bureau and capital market development.
- IMF: Assigned a long-term resident advisor for NBFIs supervision.
- UK Department for International Development (DFID): Financed baseline supply and demand surveys (FinScope national household survey), and subsequent Financial Sector Deepening Trust Fund (GB£15 million).
- Dutch Government: Supported conversion of Union des Banques Populaires du Rwanda (UBPR) into a commercial bank, with Rabobank becoming a strategic partner of UBPR in 2008.
- African Development Bank: Competitiveness and Enterprise Development Project (Phase II) (US\$7 million).
- FIRST Initiative: Financed the FSDP Phase II (US\$0.4 million).

Results of the FSDP Phase II:

- Successful implementation of more than **100 stand-alone elements** of the FSDP action plan.
- Draft legislation for the regulation and supervision of **collective investment schemes (CIS)** was prepared and passed by the parliament. Legislation is expected to be published in the Official Gazette at the time of this brief.
- Preparation of an FSDP action plan that prioritized the areas of technical assistance to implement recommendations for financial sector development outlined in the FSAP 2005, with more than 240 stand-alone actions.
- Draft legislation for the regulation of **pension schemes** and personal retirement savings accounts was prepared, and the legislation was enacted.
- FIRST assisted the National Bank of Rwanda (NBR) in preparing user requirements and technical specifications for the **Rwanda integrated payments processing system (RIPPS) and drafting laws and regulation for payment systems**. The RIPPS, financed by the World Bank Competitiveness and Enterprise Development Project (CEDP), consists of the Automated Transfer System (ATS) and the Central Securities Depository (CSD). The CSD is under implementation and is set to go live by mid April 2011. The ATS is complete and was officially launched in February 2011. ATS volume at present is about 10,000 payment instructions per day.

Bank Contribution

The FSDP in Rwanda (Phase I and II projects) was supported by the FIRST Initiative with more than US\$1 million in contributions. The Bank-financed CEDP (US\$6 million) mainly supported four areas: (i) the payment system by setting up the Rwanda Integrated Payment Processing System including the ATS; (ii) the Microfinance sector by strengthening the capacity of the Microfinance Association, and selected MFIs; (iii) the Non bank financial institutions by preparing the financial and organization audits of the insurance companies and by strengthening the capacity of the Central Bank to supervise NBFIs; (iv) the Auditing and Accounting standards by setting up the Institute of Certified Public Accountants and providing training to key stakeholders.

Beneficiaries

The main beneficiaries of the project are Rwanda's financial sector stakeholders who, inter alia, include the National Bank of Rwanda, the commercial banks, as well as non-bank financial institutions in the country. Moreover, the consumers of financial services received the benefits with increased access to financial services.

Partners

The FSDP (Phase I project) resulted in engagement of the entire financial sector of Rwanda, with full ownership and participation in the process by the country government. More international organizations and other donor agencies (World Bank, the United Kingdom, the Netherlands, the United States, the IMF, and the African Development Bank) partnered with FIRST after the presentation of the FSDP action plan to a broader community during the structured workshop.

Toward the Future

The Rwandan authorities translated the diagnostics and most of the recommendations provided by FIRST's consultants into policy decisions and reforms. The project has the potential to be replicated in other countries with similar reform-minded environments, and, if possible, it should be combined with World Bank-financed operations in financial sector development to leverage additional resources to implement concrete actions and maximize the impact. Building on the success of Rwanda's FSDP, FIRST developed a FSDP model to share with and replicate in other countries.
