



Rwanda's Remarkable Transformation

Socioeconomic change positions Rwanda for a prosperous future.

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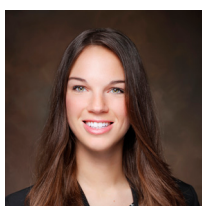
Rwanda will always be associated with Africa's largest genocide in modern times. In 1994, an estimated 800,000 Rwandans were killed in the space of 100 days, and millions more were displaced. The country's institutions, systems of government, and trust among its people were destroyed.

Very few expected Rwanda to be able to leave behind the ethnic divisions that caused the genocide and to successfully embark on a process of post-conflict nation building. However, a remarkable transformation is underway. Rwandans are increasingly united, and progress has been made in rebuilding trust in the country's leadership, while the economy is improving across a range of metrics.

We witnessed this transformation firsthand on our recent research trip to the country.

Meeting Development Aspirations Through High Growth

Rapid economic growth has been Rwanda's overarching development goal. With this vision, Rwanda has aligned itself with the successful east Asian economies



NOTES FROM THE ROAD

Traveling the Frontier Markets

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that began their development journey with a similar quest for high growth. In the decades after the genocide, Rwanda has achieved its place among the world's fastest-growing economies—and has seen a three-and-a-half-fold increase in per capita income¹ for its population of 12.3 million since 1994.¹ Moreover, growth has been broadly inclusive, and extensive investment in social safety nets has reduced poverty significantly.

Future aspirations in this regard have been set extremely high—specifically, reaching upper-middle-income status by 2035.¹ Any future high-growth strategy will require a multi-sectoral approach, and services and industry now account for about half of all economic activity. Rwanda's gross domestic product (GDP) growth is expected to remain

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¹ Source: World Bank, 2019. "Future Drivers of Growth in Rwanda: Innovation, Integration, Agglomeration, and Competition." Overview booklet. World Bank, Washington, DC.

Current Conditions in Rwanda

Improvement across a range of metrics

As of October 31, 2019



* Source: Inter-Parliamentary Union, 2018.



Population

12.3 M



Expected GDP growth in 2019

8%



Growth in per capita income

3.5x



Target year for global middle-income status

2035



Global ranking of proportion of women in Parliament*

1st

Companies like Bank of Kigali are benefiting from favorable growth dynamics and the trend toward increasing digitalization.

around 8% in 2019², supported by public investment spending, private investment, and interventions aimed at promoting diversified and higher value-added economic activity.²

Improvement on a Broader Range of Metrics

Metrics other than just GDP growth can also be used to demonstrate Rwanda's rapid progress. The country has the highest share of women in the lower house of Parliament globally. Inbound tourism is boosting the economy and having a trickle-down effect on other areas of activity, such as the supply of fruit. Steps in transforming into a knowledge-led service economy are aided by the fact that most Rwandans are bilingual, speaking English and French, and that there is good connectivity stemming from the high penetration of 4G networks.

Banking Sector Trends

Rwanda's banking sector has been shaped by new innovations such as electronic payment technologies. Mobile phone penetration is high at around 90% of the population, and there is good interoperability in retail payment systems. Against this backdrop, Rwanda's central bank has stipulated action to strengthen oversight of the financial technology sector while encouraging innovation. This has included signing memorandums of understanding with domestic telecommunications regulators.

Bank of Kigali—Expanding in the Digital Space

During our recent research trip, we met with the management of Bank of Kigali, a leading bank in Rwanda. Rare for an African bank, Bank of Kigali has both a female chief executive officer and chief financial officer. While being a top player, Bank of Kigali does face competitive pressures—notably from the merger of Banque Populaire

² Source: IMF. July 2019. "Rwanda: Staff Report for the 2019 Article IV Consultation and Request for a Three-Year Policy Coordination Instrument"—Press Release. Country Report No. 19/211.

du Rwanda (BPR) and Equity Bank, which, as a joint entity, will have a 25% market share.

Bank of Kigali has made progress with digital projects. The bank launched digital wallets three and a half years ago and already registered 170,000 people of a total of 300,000 clients. The bank has been targeting farmers in particular, as well as seeking to attract people not yet reliant on banking services. It is also building systems internally to ensure it has ownership of all aspects of the client journey.

Bank of Kigali also has the most sizable market share in point-of-sale systems, which allow customers to make payments for products or services at stores. It has also showed promise in the mobile payments sphere but needs to recruit more merchants to transact via phones and QR codes (machine-readable optical labels that contain information about the items to which they're attached). The bank's approach has been to offer payment services and then help with working capital facilities, essentially bundling their offerings. The approach has worked well in schools, where Bank of Kigali offers systems to manage

payments and ensure that fee tranches are paid on time.

The bank has an impressive loan book, with several deals in the pipeline. These involve Maraphone, a smartphone manufacturer owned by the pan-African conglomerate Mara Group; a manufacturing facility for edible oil; and the extension of a cement plant. There is very limited competition in the corporate sphere, although this may change with the BPR/Equity Bank merger.

Growing Optimism in the Future

Rwanda has taken great strides to leave behind the socioeconomic traumas of the past. After the 1994 genocide, the country's GDP collapsed, falling by half from an already low base, while life expectancy at birth for Rwandans was the lowest in the world. Today, on a platform of strong economic growth, the focus of authorities is on providing productive economic opportunities and higher-quality living standards to all Rwandan citizens. Companies like Bank of Kigali are benefiting from favorable growth dynamics and the trend toward increasing digitalization. We believe that, over time, we may be able to uncover attractive investment opportunities in rapidly developing Rwanda.

WHAT WE'RE WATCHING NEXT

As Rwanda continues to transition toward higher-middle-income status, we anticipate that industry competitive pressures will increase. This is particularly the case in banking, where there have been new entrants at roughly the rate of one a year in the past decade. There is vast scope for growth; however, more than 75% of the Rwandan population earn their living directly or indirectly through the agricultural sector, and formal financing is less than 2%.

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