Institute of Policy Analysis and Research - Rwanda

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FRIEDRICH EBERT STIFTUNG

BOOSTING HOUSEHOLD SAVINGS IN RWANDA
Policy Brief

A. Setting the scene

The National Strategy for Transformation (NST1) identifies private saving as an important driver that will boost both domestic investments and GDP growth to reach the desired 9.1 percent average growth over the NST1 period. In this regard, the focus is on enhancing private savings, with the target to increase domestic savings from 12.1 percent in 2017 to 23.9 percent in 2024.

To raise private savings and household savings, in particular, it is important to investigate the fundamentals that determine household savings. Unfortunately, in Rwanda, the existing empirical literature related to the latter is lopsided. These considerations point to the need for an in-depth analysis of household saving behaviour as well as the underlying driving forces of household saving by combining both quantitative and qualitative information to build a sound empirical foundation for informing policy makers.

It is in this respect that the Ministry of Finance and Economic planning (MINECOFIN), with support from the Macroeconomic and Investment Policies (MIP) program of GIZ, has mandated the Institute of Policy Analysis and Research (IPAR-Rwanda) to investigate the fundamentals that determine household savings in Rwanda.

B. Approach

The objective of this study is to identify the factors driving households' saving in Rwanda. The approach uses mixed methods combining quantitative and qualitative analysis. The quantitative analysis consists of a factor analysis based on three nation-wide representative household surveys conducted between 2010 and 2017 (EICV3-4-5, NISR). This secondary data analysis is complemented by a survey administered to 412 households during 2019-20, which collected information on new variables, mainly on saving behaviour not available in the national EICV surveys, but is not nationally representative.

In addition, the qualitative analysis is based on key informant interviews with key stakeholders involved in savings promotion (e.g Minecofin, Bank of Kigali, SACCO) and focus-group discussions with citizens, which provide further insights on the policy challenges related to savings in Rwanda, what motivates households to save (what do they save for?), how they save, what are the challenges they encounter when saving and what are the drivers (or determinants) of saving, which enables us to further explore the saving behaviour of household in Rwanda.

C. Findings

<u>Who saves and how much?</u>

Overall, the EICV data shows that the portion of households saving—in an account with a bank or other financial institution (MFIs, SACCOs) or through membership in a tontine—has increased between 2011 and 2014, from 62 to 75 percent, and has remained constant between 2014 and 2017, which is the last data point available. In 2017, 58 percent of Rwandan households were contributing to a tontine, 41% were saving in an account in a financial institution, and 75% were saving in either of them. Once Rwandans start to save in an account, the minimum amount they save in saving institutions can be very small (RWF 1920 for the lowest 1% percentile of savers) but increases rapidly to over RWF 50,000 per year for 3 out of 4 of savers and to RWF 156,000 for the median saver. It is worth noting that 1 out of 4 savers saves more than RWF 620,000 per year and 1 out of 10 more than RWF 2,3 million. While more households use tontines, they contribute lower amounts (about ten times) in tontines than they deposit in savings accounts in financial institutions.

On average, households saving in accounts or contributing to tontines are more likely to be educated and to live in urban areas. The household is larger but with a lower share of dependents. The share of household members working off-farm is higher, and the household head is more likely to work off-farm, for a salary or running his/her own business. The total value of their asset and livestock is higher and they own more land, on average. They consume much more and also spend more on health and education.

What do Rwandans save for? (small survey)

Figure 1 reveals that 44 percent of the surveyed households (412) respond that they save to sustain food and other daily needs in case of emergencies, 18 percent for the education of their children where they pay school meals and materials, and 9 percent to increase the capital of their business. Most of the households also save for health insurance (*Mutuelle de Santé*) which is considered part of their daily needs. Some reported having saved to buy land, build a house, or buy livestock.

Figure 1: Reason for saving

Why do many not save? (small survey)

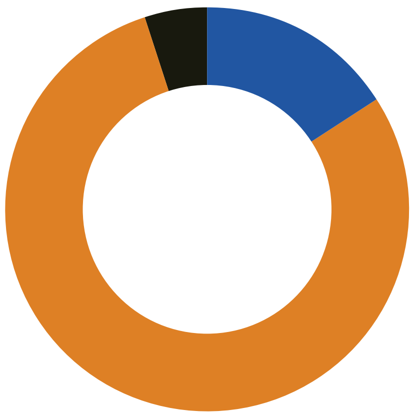
The 2020 small survey found that 27 percent of respondents are not saving, a figure which matches closes the estimate in the 2016-17 EICV. Of them, 57 percent said they do not save because they do not have enough money for both subsistence and saving. Another reason for not saving is the lack of knowledge about the reasons and forms of savings. The large proportion of households that do not save (because they do not have money left after subsistence needs) indicates that rural areas still account for a large number of poor who barely cover their daily expenditures or consume what they produce. Respondents indicated that poverty, mindset, and lack of knowledge of saving are the main reasons for not saving. They reported as the main causes of poverty unemployment, crop diseases, bad weather for agriculture, and large family size. The following illustrates how mindset can be a hurdle to saving:

> *"People do not save due to two causes: unemployment and mindset. There is a need to have an income to save. Due to a poor mindset; some people get money but they do not think about saving. Such people are following the old Rwandan proverb "amavuta y'umugabo ni amuraye ku mubiri" or "ibyejo bibara abejo" which means "you have to spend all your income" or you "should not think about the future, as it is not certain". (FGD participant, Gasabo)*

How do Rwandans choose the form of saving? (small survey)

Figure 2 shows that in 79 percent of the cases, the form of saving is chosen mainly for reasons of trust in (and reputation of) the institution, easy access to the savings accounts, and the possibility of using the saving as collateral, i.e., non-financial reasons. Financial reasons (such as interest rate and administrative costs) play a much smaller role, e.g. the interest rate is cited as the main guide in choosing the form of saving by only 2% of the respondents. Stated reasons for joining a tontine include: closeness in distance, ease of becoming a member, trustworthiness, ease of getting a loan and absence of collateral requirement.

Figure 2: The main reasons to choose the form of saving



What determines the level of household savings? (EICV3-5)

The EICV3-5 *factor analysis* identified, first, the household characteristics affecting the decision to save [or not] in an account with a financial institution and the decision to join [or not] a tontine. Second, the analysis identified the household characteristics affecting the amounts saved in an account or in a tontine.

A. Saving in accounts with financial institutions

Decision to have an account. The findings show that having 'no education' and living in a rural area reduces the probability of saving in an account. It also shows that female-headed households tend not to save in accounts (compared to male-headed households). The type of occupation also matters, e.g., working in farm-related activities reduces the likelihood of saving in an account.

Wealth is positively associated with the decision to use a savings account. Finally, the level of household spending on education increases the likelihood of having using a savings account. Finally, government policies such as Girinka and *Mutuelle de Santé* are positively associated with the decision to save in an account, showing a favorable side effect of these policies.

Overall, the results (i) provide valuable information on the household characteristics affecting the decision to save in an account; (ii) indicate that being poorer and not part of the social protection programs reduces the likelihood to have an account. These findings complement the views obtained from *Key Informants* that the saving products on the market do not always clearly identify their target groups, and that some groups are not benefitting from saving products.

Amounts deposited in accounts (Figure 3). The EICV3-5 *factor analysis* provides information on what is the leverage to increase private savings. First, keeping other factors constant, education is a key factor affecting the amount deposited in an account. Having some education increases by 42 percent the amount deposited on a savings account compared to having no education. Another important factor is location, whereby households living in urban areas deposit 10 percent more savings than households living in rural areas. Looking at occupation, working in the off-farm sector increases by 46 percent the amount deposited in an account.

Not shown in Figure 3, no consistent relation was found between wealth indicators (initial level of saving, value of assets, value of livestock, land area owned) and the level of savings in the account. This could mean that as wealth increases saving in banks may not be the preferred option for Rwandan households. On the other hand, Figure 3 last quadrant shows that the higher the consumption, the higher the propensity to save in an account. Doubling consumption is associated with a 115% increase in the amount saved in an account. Furthermore, the positive association between saving and health and education expenditure may suggest that households are saving in account for their children's education and health.

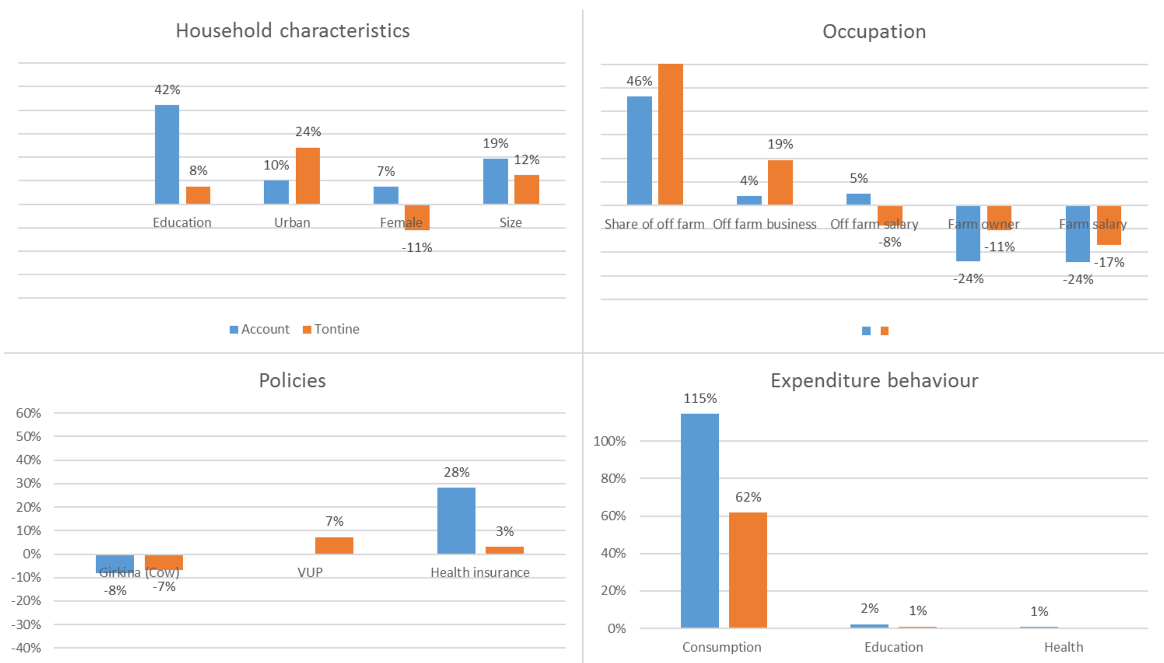
B. Contributing to Tontines

Contributing to Tontine is different from saving in an account. Some argue that there is a saving ladder, where Rwandans first use tontine before they move to banks. The factors affecting the contribution to tontine are hence different from the ones affecting savings in the account.

Decision to join tontine. The EICV3-5 *factor analysis* found a negative association between the decision to join a tontine and being in urban areas, a female-headed, and a youth-headed household. Education is not a significant factor affecting tontine membership, larger families with more dependents are more likely to join a tontine, and being a salary worker reduces the likelihood to join. Not shown in Figure 3, wealth is positively associated with tontine membership, but consumption is not, which highlights the social role of a tontine of being part of the community and contributing to its needs.

Amounts of tontine contributions (Figure 3). The association with education and urban location is significant and positive. Similarly, consumption is positively associated with the amount contributed to tontines. Other factors have similar effects on the decision to join a tontine and the amount contributed.

Figure 3: Magnitude of key determinants of savings



D. Recommendations

The officials and stakeholders underlined the importance of household savings as a driving force for domestic investment. About three quarters of Rwandan households make financial savings in financial institutions or tontines but the spread of savings is very high and depends on household total consumption, education and occupation, among others. The saving products households choose depends on what they know, what they trust, and what they can easily access, and less on the financial attractiveness of the saving product.The profiles and needs of savers are rather different and this must be reflected in the range of available saving products. Saving products targeting well different groups and leaving no one behind should contribute to enhancing saving in Rwanda.

The findings of this study suggest the following recommendations :

1. *Identify and assess saving products available* (e.g.: *Ejo Heza*, mutual fund, *Zamuka Mugore*), their goals, and target population. Saving product providers should make sure that they offer tailor-made products to the needs of different profiles of Rwandans and that these products are accessible (e.g.: through mobile technology). The list of saving products should be shared with the Financial Sector Working Group to assess the simplicity and relevance of the products vis-a-vis their target population. This exercise should inform the awareness campaign and make sure no group is left behind.

2. *Strengthen awareness campaigns on importance of saving and available saving products*. While several saving products are available, Rwandans should be advised on which saving product to use depending on their specificities (e.g., off-farm vs farm workers, younger vs older), their goals (pensions, business development, …), and how they can be accessed (in person, mobile technology). An inventory of awareness-related activities should be kept at the sector level and an institution appointed to coordinate these campaigns.

3. *Increase number of households saving in account and tontine by targeting specific groups.* About 25 percent of households do not save in account or tontine. Various household groups share characteristics which determine the likelihood to save. Hence, specific groups should be the target of awareness campaigns about the goals and forms of saving in accounts in financial institutions: households which are in rural areas, female-headed, with 'no-education', farm workers, poor, and not benefiting from targeted government poverty programs. Similarly, specific groups should be the target of awareness campaigns about tontines: households which are in urban areas, female-headed, youth-headed, and salary workers.

In order to increase domestic investment by boosting private saving deposited in formal account, it is important to:

4. *Prioritize long-term policies reinforcing education, economic transformation towards off-farm activities, and urbanization*, as these policies are expected to lead to a more educated population, working in off-farm activities, and living in urban centers, which are key characteristics of households depositing a larger amount of saving in the account.

Finally, to ensure adequate monitoring of savings in the coming years, it is further recommended to:

5. *Update the National Saving Mobilization Strategy (2008) and strengthen its monitoring framework*. Targets should be realistic and measurable, and evaluation of achievements against targets should be conducted periodically.

6. *Strengthen data provision related to saving* by conducting a periodic study on savings and/or by including saving behaviour questions in the EICV surveys or by introducing amount variables in the Finscope survey. To date, the currently available NISR data provides limited information on saving behaviour and amounts of household savings at the same time, limiting the possibility of analysis for increasing the amounts saved, and boosting domestic investment.