National Savings Mobilisation Strategy

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Ministry of Finance and Economic Planning (MINECOFIN)
Government of Rwanda

Executive Summary

1. The task of poverty alleviation and meeting the Rwandan 2020 vision requires targeting and achieving around 8% annual growth over next 12 years. This will need substantial investment both in public and private sectors. Meeting and funding this increased investment requirements through mobilisation of savings nationally is the focus of this strategy. The EDPRS has set a target of achieving a gross national savings of 18% of GDP to attain a gross national investment target of 30% of GDP.

2. The strategy begins with a review of EDPRS objectives and targets for Savings mobilisation and the coherence of these targets with national objectives for a sustainable economic development. Then to gain a strong understanding of Rwandan context as well the international best practices, a background research was conducted involving both primary and secondary sources. Through understanding of Rwandan needs, applied theories in relation to savings & investment, and the global successful practices & innovations, the strategy proposes well coordinated actions, mechanisms and instruments.

3. Domestic savings are generally classified in three types, such as, voluntary savings, involuntary savings & forced savings. Voluntary saving relates to voluntary abstinence from consumption by private individuals out of personal disposable income and by companies out of profits. Involuntary savings is brought through involuntary reductions in consumptions. Forced Saving comes as a result of rising prices and the reduction in real consumption. Depending on time frame also, the savings can be categorised as short, medium and long-term savings. Savings can also be from foreign and domestic sources, from the private public sources and at the individual and institutional level.

4. Vision 2020 assumes that the population will grown at an average annual rate of 2.7%, that the ICOR will be 4.3 and Rwanda hopes to be a middle income country with per capita GDP of USD 900. The paper analyses the current EDPRS projections and finds that savings had been underperforming for several reasons and unless the savings-investment gaps can be reduced, it may be difficult to reach the goals. The proportion of credit to the agriculture sector is one key factor holding back domestic savings, which in turn is holding back the monetisation of the agriculture sector.

5. Rwanda generally has a good track record in recent years of maintaining a stable macroeconomic environment. However, recent developments in international financial and commodity markets have increased the risks to the macroeconomic stability, particularly to savings and investments. Due to increased inflation, interest rates have also gone up in order to pursue tightened monetary policies. However, there is a need to create an environment with moderate inflation accompanied with positive interest regimes to help mobilisation of savings.

6. A SWOT analysis was conducted to identify the areas within the current environment which require immediate attention and pieces which can be strengthened and built upon. The analysis highlights that although there are weaknesses and threats to savings mobilisation regimes, there are number of opportunities also. A top-down approach must be taken from the government to encourage a bottom-up approach from the public. The government ensures new policies and initiates reforms to increase the efficiency of banking & other financial markets. According to the FinScope survey in 2008, only 14% of the population currently bank formally, with 86% unbanked and 78% have never banked. The survey also shows that 52% of total population was financially excluded.

7. A number of case studies have been presented from different continents, where the efforts to mobilising savings have generally been proven to be successful. Examples from countries, such as India, Ghana, Ecuador, Bangladesh & Singapore have been analysed to learn pertinent lessons. All of these countries have utilised savings mobilisation to encourage and further their economic development. In

these countries, the savings mobilisation policies and programmes have been used in close conjunction with legislation and policy reforms. The case studies have also highlighted some lessons, which can be learnt. While each country is different and its experiences unique, there are consistencies in each case that translates borders. These lessons are: innovations, access, competition, increased customers' choices and strengthening of financial system.

8. Six Pillars have been identified as the foundation of Rwanda National Savings Mobilisation strategy. When these key issues are addressed properly, these will strengthen the financial infrastructure, mobilise savings and help to create a culture of savings. These are: 1) Macroeconomic Stability, 2) Institutionalized savings, 3) Expansion of the financial infrastructure and intermediation, 4) Secure and diversified means of savings, 5) Building capacity and efficiency of intermediation, and 6) increased awareness of tangible benefit of savings.

9. To help product diversifications, descriptions of a number savings products and instruments of different categories have been made. These product recommendations will help the service providers to diversify the options for savers and allow for more access to services. It includes such recommendations as a Prize Bond, Monthly Deposit Scheme, Monthly Income Scheme, savings products targeting special groups such as women, children and others. Government issued savings instruments with number of have been recommended to cater the needs for individuals, groups, as well financial service providers. These instruments can also have features to protect savers from rising inflation. A number of special products have also been designed keeping the needs of Diasporas in mind.

10. In addition to products, the report offers a major piece of policy recommendation and examines potential of SACCOs (savings and credit co-operatives) and how they can be utilised to mobilise savings for low income individuals. There are six main keys to the success of the SACCO program. These are: security, low minimum balance, liquidity, government support, tailored products to meet the needs, public education and the capacity building through training. All elements must be in place for the outlined initiatives to work.

11. The implementation mechanism involves review of institutional framework and recommendation of appropriate organisation structure. The implementation mechanism has been designed with the various ground realities in mind (including findings of the recently conducted FINSCOPE study). The objective is to create a stable financial intermediation infrastructure, where the 'accessibility' of the banking channels and products are increased and a proper regulatory and institutional framework is in place. The key is to incentivise the population to save as they will have easier access to banking, to various saving products and wider financial choices.

12. Financial Sector Development Secretariat (FSDS) should spearhead the implementation of this strategy. FSDS, through creation of National Savings Directorate (NSD), will be tasked to create a fully licensed but specialised postal bank as a Joint Venture (JV) with the relevant ministry (under which the Postal Department falls). FSDS will also manage a host of other critical functions and will act as principal agencies through which the Government's all the efforts and initiatives will be run.

13. In short, four key policies will be activated to facilitate the implementation of this strategy-a. Development and promotion of innovative products through provision of technical assistance from NSD of FSDS; b. Operationalisation of the Provident Fund within the Rwanda Social Security Board; c. Implementation of the Private Pension and Collective Investment Schemes; d. Promotion and expansion of SACCOs through capacity building.

14. It is quite clear that the existing numbers of banking branches are not adequate to serve the majority of the population. Globally as well as in Africa, the concept of co-locating a banking establishment with the post office has proved to be very effective. As mentioned before, there are many different ways to

create the Postal Savings bank (PSB) and therefore it is suggested a detail study or project is undertaken so that a proper business plan can be created.

15. PSB should be created as a commercial joint venture and the profits are equally shared. PSB may be a special banking operation but must be a fully licensed one and supervised by BNR and properly audited. The bank branches may be co-located with the post offices but should be legally separate units. There should be an agreement and a strategic plan as for the number of branches/post offices to be created over next 2, 5 and 10 years. The banking units must make use of technologies to lower cost and increase access. These banking units must work as the key points where remittance can be received by the end-users.

16. Initially, the credit providing facilities will be very limited (i.e. only against a cash deposit) .PSB will enhance the banked population through offering of different savings instruments, money transfer & payment facilities, saving accounts at a low cost & through use of modern technologies. Proximity with other postal services will help to create awareness within population easily. All PSB branches will be part of nationwide Payment system. PSBs may allow opening bank accounts with as low as RWF 100 only to receive remittance from abroad. The PSB branches can also be used for distribution of pensions and for collection of premiums/contributions for the newly introduced Social Security Fund.

17. A number of regulatory measures are also needed. A transparent system will help the different entities to understand their respective roles and be complementary to each other. The privately owned banks and other deposit taking Financial Institutions must be adequately controlled to ensure the safety of the deposit. All deposit taking institutions must be member of ‘Deposit Insurance Scheme’. A reasonable level of supervision must be put in place. At the same time, the capacity of the financial institutions and other service providers also need to be raised.

18. Finally, a guideline to create a detail implementation plan has been provided. Major action plans that should be taken to implement the overall strategy are given separately in an appendix. The items, under the plan are grouped into three phases and a possible timeline associated with the action items are also highlighted. The plan outlines priority levels (High/Medium/Low) and resources needed to undertake each aspect of the plan. A number of areas have also been highlighted, where the Government can seek donor support.

Table of Contents

List of Abbreviations

AMIR	Association of Microfinance Institutions in Rwanda
BNR	Banque Nationale du Rwanda/National Bank of Rwanda
DBS	Development Bank of Singapore
EDPRS	Economic Development and Poverty Reduction Strategy Paper
FASP	Financial Sector Assessment Program
FSAP	Financial Sector Assessment Program
FSDP	Financial Sector Development Plan
FSDS	Financial Sector Development Secretariat
GDP	Gross Domestic Product
GoR	Government of Rwanda
ICA	The International Cooperative Alliance
IFRS	International Financial Reporting Standards
M&E	Monitoring and Evaluation
MCBF	Microfinance Capacity Building Fund
MDG	Millennium Development Goal
MFI	Microfinance Institutions
MINALOC	Ministry of Local Government, Community Development and Social Affairs
MINECOFIN	Ministry of Economic Planning and Finance
MINICOM	Ministry of Commerce, Industry, Investment Promotion, Tourism and Cooperatives
MIS	Management Information System
NABARD	National Bank for Agriculture and Rural Development Bank
NBFI	Non Banking Financial Institutions
NMCC	National Microfinance Consultative Committee
NPS	National Payment Strategy
PEARLS	**P**rotection, **E**ffective financial structure, **A**sset quality, **R**ates of return and costs, **L**iquidity and **S**igns of growth
POSB	The Post Office Savings Bank
RBI	Reserve Bank of India
RCRSA	Rwanda Commercial Registration Services Agency
RPCD	Rural Planning and Credit Department
SACCO	Savings and Credit Co-operatives
SSH	Self Help Groups
SWOT	Strength, Weakness, Opportunity and Threat
TOR	Terms of Reference
UBPR	The Union des Banques Populaires du Rwanda
WOCCU	The World Council of Credit Unions

Chapter 1: Introduction

The growth of any economy depends on capital accumulation, which in turn depends on investment and an equivalent amount of savings to match it. Two of the most important issues in development economics and for developing countries are how to stimulate investment and increase the level of saving to fund increased investment. Understanding the determinants of the aggregate savings rate is a crucial prerequisite in designing a number of policy interventions; from the design of the tax and social security system to the layout of financial markets regulations. It is therefore not surprising that the analysis of saving behaviour has become one of the central issues in empirical macroeconomics.

The task of poverty alleviation and meeting the Rwandan 2020 vision requires targeting and achieving at least 8% annual growth over the next 12 years[1]. The key question in this context is whether Rwanda can position itself in a policy and institutional sense to finance the needed investment through increased domestic savings without undue recourse to foreign savings which may introduce an element of un-sustainability. Thus, this study has been commissioned by the Ministry of Finance and Economic Development (MINECOFIN) to analyze the gaps and challenges and outline a set of strategies, products and associated mechanisms to help mobilisation of savings in Rwanda. The Economic Development and Poverty Reduction Strategy (EDPRS) and the 2020 Vision goals will be revisited to assess progress and to examine how current progress can be furthered by a National Savings Mobilisation Strategy.

With the aim to turn Rwanda into a middle income country with per capita GDP of US$900, currently Rwanda is engaged to reach the following targets:

- Eliminating extreme poverty
- Reducing poverty to 30%
- Achieving an average GDP growth rate of 8%
- Achieving gross national savings of 18% (of GDP)
- Attaining gross national investment of 30% (of GDP)

The EDPRS, which was adopted in September 2007 was developed in order to provide a framework to meet the Millennium Development Goals (MDGs) and the 2020 Vision objectives, the EDPRS has originally set the following targets through 2012:

Table 1 – EDPRS Targets

	2008	2009	2010	2011	2012
GDP (nominal; millions RwF)	2,159.5	2,428.4	2,736.3	3,089.5	3,495.5
GDP real growth	7.1	7.3	7.5	7.8	8.1
Public savings (% GDP)	9.0	9.1	10.9	12.1	13.0
Private savings (% GDP)	4.6	5.2	5.1	5.3	5.4
Public investment (% GDP)	9.7	10.1	9.9	9.9	9.8
Private investment (% GDP)	9.7	10.2	12.1	13.5	14.6

* These are now changed due to the NISR GDP data changing the base year

[1] Targets have been revised based on the new macro model (see chapter two)

Given the strong correlation between all those key elements, especially the direct correlation in "savings-investment-economic growth", the GoR has embarked on various programs aimed at:

- Putting in place, through public investment all conditions of development: education, health, communication, diverse infrastructure, etc.
- Putting in place, conditions for the development of private investment: creating a legal and administrative environment which is conducive for business, developing human resource capacity, developing the financial sector, especially for savings mobilisation and access to credit and financial services.

Thus, the overall objective of this study is to analyse:

1. The potential of domestic savings,
2. Key issues for savings mobilisation, and
3. Provide an action plan on how to achieve this mobilisation

A strategy to improve Rwanda's savings rate needs to benefit from the recent insights in the savings, investment and growth literature. Tax and interest rate instruments are important policy tools but need to be a part of an overall policy package aimed at fostering growth through improved productivity and financial liberalisation. The financial sectors requiring particular attention are a well functioning banking sector, social security, pensions, insurance and a low-cost remittance schemes for Diasporas.

The following are some of the most common errors that have been made in the development of the financial sectors in the developing countries[1]:

Neglecting bank supervision and credit control legislation
Abusing the central bank, i.e. printing bank notes to finance the budget
Politicising the financial sector
Neglecting the domestic mobilisation of savings
Neglecting important areas of credit (long-term loans, small companies, rural areas, women)
Neglecting important financial services such as cash remittances

By reviewing programs adopted in other countries and implementing international best practices, Rwanda can have a head start on its savings mobilisation strategy. Learning from the success and the mistakes of others offers insight into what is viable in a variety of different financial climates, which is why much of the international examples in this study have come from countries, which were at the time or currently are, in the same stage of development as Rwanda.

This report will not only outline the current situation and the challenges facing Rwanda in relation to savings mobilisation, it will also make firm recommendations on how to achieve the savings mobilisation goals in the 2020 Vision and the EDPRS.

This chapter examines the methodology of the report, which explains the research methods and how the data was analysed. It explores the definition of savings and looks at the three different types, voluntary, involuntary and forced. Additionally, it examines the willingness to save and the determinants of saving in addition to the different types of saving (long-term, medium term and short term saving).

Chapter 2 provides an examination of economic theory; definitions and some comments on the data used and give an overview of the current macroeconomic situation and recent trends against their expected performance and projections. Recommendations are presented on an ideal level of savings which will sustain the investment and growth targets.

Chapter 3 examines the results of the FinScope survey on banking trends and conducts a SWOT analysis of the savings mobilisation in Rwanda. It also reviews the FSDP and the successes which have been made since 2007, such as payment systems and legislation and policy reforms related to the financial markets. Furthermore it explores case studies from Bangladesh, India, Ghana, Ecuador and Singapore in examining international best practices, proven financial products and the lessons that can be taken away from each country's experience.

Before concrete product and policy recommendations can be made, it is important to understand the basis of the study. Six pillars have been identified as the base of the Rwandan Savings Mobilisation Strategy and Chapter 4 explores all six (1) Macroeconomic Stability (2) Institutionalised Savings (3) Expansion of the Financial Infrastructure (4) Secure and Diversified Means of Saving (5) Building Capacity and Efficiency of Intermediation (6) Increased Awareness and Positive Perception.

After the foundation of the study has been established recommendations can be made. Chapter 5 offers solid product recommendations which will diversify the options to savers and allow for more access to services. It includes such recommendations as a Prize Bond, Monthly Deposit Scheme, Monthly Income Scheme, Savings Products for Special Groups and other specific products.

In addition to products, the report offers a major piece of policy recommendation in Chapter 6. This chapter examines in depth the use of SACCOs (savings and credit co-operatives) and how they can be utilised to mobilise savings for low income individuals. It also outlines a recommendation of a SACCOs Bill which would strengthen the oversight and regulation and in turn the reputation of SACCOs among the public in order to encourage their usage.

Methodology

The purpose of this study is to provide guidance and proposals as to how domestic savings can increase growth in Rwanda through savings mobilisation.

The specific objectives as per the Terms of Reference (TOR) are:

- To revisit the EDPRS objectives and targets for savings mobilisation, and check their coherence with national objectives for a sustainable economic development;
- To propose strategic and well coordinated actions, mechanisms and instruments related to that strategy, ways and means to implement them, roles of respective actors;
- To propose monitoring and evaluating mechanisms;
- Among others, to propose specific strategies related to contractual savings (pension and insurance), leasing and savings for housing.

In order to gain a strong understanding of the Rwandan context, a thorough background research was conducted that drew from both primary and secondary sources. As part of the study relevant stakeholders were identified and information was collected regarding how, and to what extent, these stakeholders can facilitate mobilisation of savings. Necessary Legal and Regulatory Frameworks were examined as this legal context will be a significant determinant of both savings success and challenges.

An Institutional Assessment was conducted in order to determine which particular institutional can spear head the savings related activities. . It was necessary to gauge the orientation and interest of the private sector i.e. commercial banks, insurance companies, MFIs in the topic of savings. This understanding formed the basis for increased involvement of private sector actors in developing savings products in the future.

The multi-disciplinary characteristics of this study in the context of the Vision 2020 and EDPRS implied that the macroeconomic model and forecasts figures were analysed in details to validate/revise economic assumptions/targets. Comprehensive analyses of the following were also conducted:

- Analysis of the current status of domestic savings, identification of gaps;
- Revisit all existing policies, laws and different proposals to savings mobilisation;
- Analysis of the strengths and weaknesses of existing mechanisms and recommends new products;
- Analysis of mechanisms to mobilise savings from the Diaspora;
- Highlight importance of forming SACCOs to mobilise savings (including how to operationalise SACCOs, how to manage them effectively, how to link them with formal financial system);
- Institutional mechanism for effective and professional management of all new savings vehicles;
- Appropriate investor and consumer protection and safeguards;
- Complete plan of actions highlighting key actions, institutions in charge of each of them, time frame.

Defining Savings

'Savings' can mean a variety of different things; it could mean insurance, simple savings accounts, capital such as livestock or other tangible assets, or could mean putting cash under the mattress. This report will focus solely on the formal sector of savings, this means the financial institutions and markets, additionally it also covers the policies and legislation, monetary policy bodies that control bank and insurance etc. This later part was neglected by many developing countries for a long time, thus limiting the success of the financial sector.[2]

There are basically three types of private domestic savings, each with their own different determinants, namely: voluntary savings; involuntary savings; and forced savings.

Voluntary saving relates to the voluntary abstinence from consumption by private individuals out of personal disposable income and by companies out of profits.

[2] *A Possible Means of Encouraging Development: Mobilisation of Savings Capital in Third World Countries*, Hans-Gert Braun; May 31, 2003.

Involuntary saving is saving brought about through involuntary reductions in consumption. All forms of taxation and schemes for compulsory lending to governments (including national insurance contributions) are forms of involuntary saving.

Forced saving is saving that comes about as a result of rising prices and the reduction in real consumption that inflation involves if consumers cannot (or do not) defend themselves.

Rising prices may reduce real consumption for a number of reasons:

1. People may suffer money illusion.
2. They may want to keep constant the *real* value of their money balance holdings, so they accumulate more money and spend less as prices rise (the real balance effect).
3. Inflation may redistribute income to those with a higher propensity to save, such as profit earners. Inflation initiated by monetary expansion will certainly redistribute income to the government as the issuer of money. This is the notion of the inflation tax. As Keynes once said "*[inflation is] a form of taxation that the public finds hard to evade and even the weakest government can enforce when it can enforce nothing else*" (Keynes, 1923).

Voluntary saving depends on the capacity to save and the willingness to save. The capacity to save depends on three main determinants: the level of per capita income; the growth of income, and the distribution of income. The willingness to save depends, in turn, on: the rate of interest; the existence of financial institutions; the range and availability of financial assets, and the rate of inflation.

The saving ratio is lower in poor countries compared with rich countries, but does not rise linearly as income increases. Apart from the level of per capita income, another major determinant of the domestic savings ratio is likely to be the *growth* of income as suggested by the life-cycle hypothesis of saving.

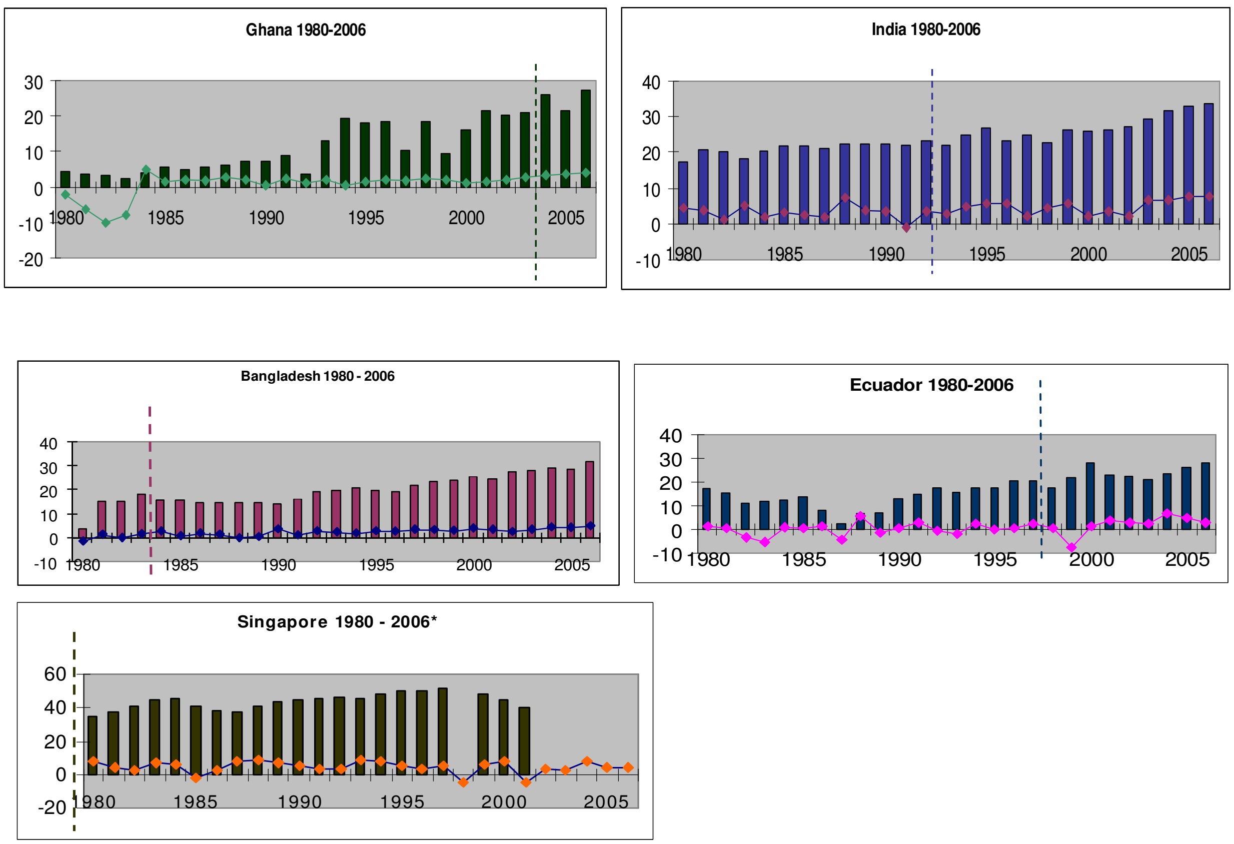
The basis of this hypothesis is that individuals and households attempt to spread out consumption evenly over their lifetime. A typical pattern of behaviour would be dis-saving in youth, positive saving in middle-age, and dis-saving in retirement, breaking even on death (on the assumption of no bequests). Consider now the effect of income growth within this framework.

If income is rising over time, it means that the life earnings and consumption of each successive age group will be higher than the preceding one. If each successive age group is aiming for a higher level of consumption in retirement, the volume of saving of the active households will exceed the "dis-saving" of the currently retired households with a lower level of lifetime consumption. The savings ratio will then tend to rise with the rate of growth of income because the higher the growth rate, The greater the gap between the target levels of consumption of the current generation of working households and the "dis-saving" of retired people from a less prosperous generation.

Thus, countries with higher growth rates might be expected to have at least higher personal savings ratios than countries with lower growth rates. The exceptions will be countries where population is not in balanced growth; where, for example, population growth has accelerated or slowed down dramatically changing the balance between active and non-active households (i.e. changing the dependency ratio). For this reason, in testing the life-cycle hypothesis, the growth of income is typically split into its two components: the growth of per capita income and the growth of population, with the expectation that the magnitude and significance of the coefficients will not normally be the same.

Take for example the following data from Bangladesh, India, Ghana, Ecuador, and Singapore, as the growth rates rise, so does the savings rate. The methods and strategies of each of the countries below will be further explored in the chapter on case studies. The graphs below show the relationship of National Savings Gross Savings Percent of GNI (bars) and GDP Annual Growth Rate (lines)[3]:

Figure 1 – National Savings Gross Savings Percent of GNI in relation to GDP Annual Growth Rate (Ghana, India, Bangladesh, Ecuador and Singapore):



Willingness to save

As far as the *willingness* to save is concerned, it might be expected that the price of present consumption, namely the real rate of interest, will affect savings positively. This classical idea lies behind the financial liberalisation programmes in developing countries which seek to raise the real interest rate to "*market clearing levels*" in order to maximise savings, investment and growth. In the last twenty years or so there has been extensive testing of the financial liberalisation

[3] World Bank Figures, Singapore data only through 2001

hypothesis, and particularly the impact of interest rates on savings, with mixed and largely inconclusive results. Perhaps this is not surprising for two main reasons.

1. The financial liberalisation argument largely refers to financial savings, but financial savings is only one component of total savings. When interest rates rise, agents may simply switch between assets, leaving total savings unchanged.
2. It is a standard theory (Thirlwall, 1999) that any price change (in this case, the interest rate) has both income and substitution effects. The substitution effect promotes saving, but the income effect reduces saving, and the two effects may cancel each other out. I will have more to say below about financial liberalisation programmes in developing countries.

As we already mentioned, a more important determinant of the willingness to save is likely to be the existence of financial institutions, and the range and availability of financial assets to suit savers. There is no single measure that can capture these institutional determinants of the willingness to save. The number, diversity and distribution (or proximity) of financial institutions serving the different interests of savers is important. Athukorala (1998), finds the bank density index (population per bank branch) a highly significant variable in explaining inter-temporal savings behaviour in India. Equally, the volume and range of financial assets with different terms and maturities might matter as a measure of financial deepening. Indicators of financial deepening include: the ratio of money and quasi-money to GDP; the growth of money and quasi-money, and quasi-liquid liabilities as a percentage of GDP. Hussein and Thirlwall (1999) take this last measure, and find it statistically robust in explaining differences in the savings ratio across countries.

Determinants of Saving

Recent research on the determinants of differences in the domestic savings ratio across countries confirms the overwhelming importance of the level of per capita income (PCI, hereafter), the growth of income, and financial deepening. Different studies take as explanatory variables, the level of PCI, the growth of income (reflecting the life-cycle hypothesis of saving), various monetary and fiscal variables (including measures of macroeconomic stability), foreign saving, and political variables.

The major conclusions highlighted are:

- Per capita income growth is an important determinant of private and public saving,
- Financial development is important as a determinant of private saving, higher government saving crowds out private saving, and *higher foreign saving is associated with lower domestic saving*

Types of Savings

We consider savings (form individuals) from the different perspectives:

- <u>Long term savings</u>: typical example are pension funds and other retirement schemes
- <u>Medium term savings</u>: typical example: real estate, shares, long term bonds
- <u>Short term savings</u>: savings that can be mobilised for a short period of time (excess liquidity).

CHAPTER 2: CONTEMPORARY INDICATORS AND REVISED PROJECTION

The EDPRS and Vision 2020 set out targets for the economy of which savings are a crucial linchpin to success. An assessment of the current conditions is necessary to identify whether Rwanda is on track to meet targets. A better understanding of the situation will highlight the necessary alterations and assist in the task to identify suitable policies to mobilise savings.

Six ‘pillars’ have been identified which need to be improved so as to strengthen the financial sector and mobilise savings in Rwanda. In conjunction with assessing the feasibility of the savings targets it is necessary to deal with the first pillar: macroeconomic stability. This chapter will examine the current macroeconomic situation and recent trends against their expected performance and projections. Recommendations will be presented on an ideal level of savings which will sustain the investment and growth targets. Before examining the trends and projections, a brief overview of economic theory, definitions and some comments on the data used is necessary.

Theory, Definitions and Data

Theory

Encouraging growth in an economy depends to a large extent, upon capital accumulation. This requires investment, which according to economic theory, must be matched by saving. However, domestic savings and investment are not always equal as countries with low savings can attract investment from overseas and foreign savers lacking opportunities at home can invest abroad. This can lead to a saving-investment gap (also known as a resource gap). In Rwanda this gap is negative, i.e. investments are greater than savings. To close this gap it is not possible to reduce investment – due to the large infrastructure requirements for development – and so the solution is to increase savings.

Savings can be from foreign and domestic sources, from the private and public sectors and at the individual or institutional level. While there is fear of the public sector activity ‘crowding out’ private investment; there is the counter argument that fiscal stimulus can in fact ‘crowd in’ private investment. In a developing country like Rwanda, this is particularly useful in three ways:

1) Government spending creates private sector business opportunities (domestic or foreign);
2) Government can invest in public goods and infrastructure which can improve the long-term growth potential;
3) Spending provides employment, creating a multiply effect, raising GDP and thus the amount of savings.

Therefore the increase in savings and investment into productive activities can increase GDP and reduce the incidence of poverty. However, the key to investment is tied not only to the level of savings available but also to the long term profitability and the interest rate. Ensuring a stable macroeconomic environment with low inflation, low interest rates and low rates of taxation are some of the best ways in which a government can encourage private-sector investment. It is also important to note that increasing the level of investment is not a simple recipe for growth; it matters what you invest in and how productive the results are.

Working Definitions

Gross Domestic Savings = Nominal Gross Domestic Product minus Consumption.

Gross National Savings = Gross National Disposable Income – Consumption.
Where: Gross National Disposable Income = Nominal GDP + Net Current Transfers + Net Factor Income from Abroad.

Total Investment = Public plus Private Investment.

Saving-Investment Gap = National Savings minus Investment.

Incremental Capital Output Ratio (ICOR) = Average three years investment as a percentage of GDP divided by the current years' real growth rate. The Rwandan ICOR is expected to continue its rising trend from 1.2 in 2001/02 to 2.6 in 2011/12. Thereafter, from 2012/13 to 2011/20 the ICOR is assumed to rise to 3.5.

ICOR of 3.5 means that, to gain the required rate of growth the investment rate needs to be 3.5 times greater. The higher the ICOR the lower the productivity of capital; It is assumed that as Rwanda develops each incremental unit of capital will have reduced marginal productivity and therefore more investment will be required to maintain a certain growth rate.

Data[4]

Finally a proviso on the data used in this analysis. First, Rwanda is due to join the East African Community (EAC) in July 2009. A requirement for entry is to alter the budgeting year from a calendar year (January to December) to the EAC fiscal year (from July to June). This report uses the most up to date financial programming model from the Ministry of Finance and Economic Planning (MINECOFIN) which is based on fiscal years. All charts and discussion are presented to alleviate difficulties in comparison of the original EDPRS targets which are in calendar years with the most up to date historical data and projections in fiscal years.

Secondly, the latest financial programming tool available for this analysis dates from September 2008. This includes actual data up to June 2008 and thereafter data refers to MINECOFIN projections. As will be discussed in below the global economic environment has been extremely volatile since then. Where relevant this report will point to any potential deviations from projections due to the global environment. One benefit of Rwanda's shallow financial sector is that knock on effects from the global financial crisis could be minimal. In this respect the general overall macroeconomic outlook is at less risk than other more developed countries.

Third, the model has been updated to reflect the revised GDP data from the NISR and MINECOFIN (covering 2005 to 2007). This accounts for the small differences in indicators as a percentage of GDP shown here compared to those in the EDPRS.

[4] NISR has recently changed data from 2004 onwards based on revised methodology. This was taken into consideration during analysis. The projection in table 2.2 differs from NISR published official data as NISR analysis was based on calendar year while analysis conducted in this study is based on fiscal year. In addition, NISR published data was in nominal terms whereas the data in this study are mostly in real terms.

Fourth, where a target has not been specified for each year (whether missing from Vision 2020 or EDPRS) data has been used from the original financial programming model used in the EDPRS calculations.

Historical Trends

Table 2.1 - GDP Growth, Savings and Investment (As a Percentage of GDP)

	2003/04	2004/05	2005/06	2006/07	2007/08	5 Yr Av
Real GDP Growth Rate (%)	**2.6**	**6.5**	**7.6**	**7.2**	**8.5**	**6.5**
Investment	13.1	13.2	16.2	17.7	18.2	**15.7**
Public	12.0	11.4	14.9	13.2	8.4	**12.0**
Private	2.6	4.1	1.3	4.6	9.8	**4.5**
Domestic Savings	-3.2	-2.9	0.7	2.1	-1.0	**-0.9**
National Savings	11.9	11.2	14.6	15.6	11.9	**13.0**
Saving-Investment Gap	**-1.2**	**-2.0**	**-1.7**	**-2.1**	**-6.3**	**-2.6**
Government Net Savings (- deficit)	3.0	3.3	2.6	1.6	-4.6	**1.2**
Private Net Savings (- deficit)	-4.2	-5.3	-4.3	-3.7	-1.7	**-3.8**
ICOR	5.3	2.2	2.0	2.3	2.0	**2.8**

Source: MINECOFIN

Table 1 outlines the five year trends in savings and investment in Rwanda. The economy has been growing strongly, averaging 6.5 percent per annum during this period.

Investment levels have been rising from 13 to 18 percent of GDP. Although private sector investment has been growing incredibly fast (especially in 2007/08) the majority of investment is still sourced from the public sector; averaging 12 percent of GDP whilst the private sector averages 4.5 percent. Over the past five years Foreign Direct Investment (FDI) has been growing sharply from 2 to 26 percent; on average accounting for 10 percent of private sector investment. This reflects the improvements in macroeconomic stability and the government's policy to attracting FDI.

On the savings side domestic savings are growing but remain low; averaging around -1 percent of GDP over the five years. National savings have performed better averaging 13 percent of GDP. The resulting savings-investment gap has increased over the last five years from -1 to -6 percent of GDP. This large rise in 2007/08 marks the beginning of the EDPRS where large infrastructure projects are implemented. This has lead to a rise in domestically and foreign funded investments. The private net savings gap has been growing smaller over the last five years.

The private sector have benefited from the introduction of financial sector reforms and economic growth. Data from the National Bank of Rwanda (NBR) [5] shows private sector credit growth of 22 percent in 2007 and around 30 percent in 2008 and bank deposits rising on by 27 percent per annum on average over the past three years.

However, despite strong performance and growth rates savings and investment indicators are still below international and regional averages. The preceding sections will assess whether Rwanda is on track to meets it's medium and long term targets.

[5] From the NBR extended monetary survey, which includes the newly created bank UBPR.

Vision 2020 and EDPRS Projections

Where Do We Stand?

Table 2 gives an overview of the original targets compared to the latest financial programming model's actual data and projections. Vision 2020 has the base year of 2000 a mid term target in 2010 and the final goals for 2020. The EDPRS has the base year of 2005/06 (as per the EICV II) and the end target year of 2012. For comparison the latest MINECOFIN financial programme has the year 2007/08 with the latest actual data; the year 2011/12 for comparison with the EDPRS; and 2019/20 for comparison with Vision 2020.

The EDPRS has targeted an 8 percent real GDP growth over the medium term. This would be underpinned by a rise in investment rate to 24 percent of GDP (from 16 percent in 2005/06) most of which would be from increasing private sector activity. Domestic savings are projected to rise from 0.7 to 6.5 percent of GDP. This would result in a saving-investment gap widening to -5 percent of GDP. This widening can be seen as a short term necessity as the EDPRS is planned to be a highly investment based period with many infrastructure projects ongoing to reduce bottlenecks to development.

Table 2.2 - Vision 2020 and EDPRS Targets Compared to Latest Projections

					EDPRS	EDPRS Original	Vision 2020 Original	Vision 2020
	2000	**2005/06**	**2007/08**	**2010**	**2011/12**	**2012**	**2020**	**2019/20**
Population (million)	7.7	9.0	9.5	10.0	10.6	10.1	13.0	12.8
Population Growth Rate	2.9	2.7	2.7	2.3	2.7	2.2	2.2	2.1
Real GDP (Annual % Growth)	6.2	6.5	8.5	8.0	7.8	8.1	8.0	7.0
Average Real GDP Growth Rate[1]	10.8	6.3	6.5	8.0	7.7	7.5	8.0	7.0
Real GDP per Capita (USD)[2]	**200**	**239**	**263**	**400**	**315**	**346**	**900**	**448**
Nominal GDP per Capita (USD)	**208**	**320**	**401**	**590**	**625**	**722**	**1438**	**995**
Poverty (% Pop)[3]	60.4	57.0	52.6	40.0	43.8	46.0	30.0	28.8
Extreme Poverty (% Pop)[3]	-	41.4	37.0	-	28.7	24.0	-	15.5
Gross Fixed Investment (% GDP)	**13.1**	**16.3**	**18.2**	**23.0**	**20.8**	**23.8**	**30.0**	**24.5**
Public	6.2	1.3	9.8	9.1	10.6	9.8	20.0	9.6
Private	7.2	14.9	8.4	10.7	10.2	14.0	8.0	14.9
Gross National Savings (% GDP)	**10.5**	**14.6**	**11.7**	**15.2**	**13.0**	**18.5**	**29.5**	**16.0**
Gross Domestic Savings (% GDP)	**-5.2**	**0.7**	**-1.1**	**3.1**	**4.1**	**6.5**	**35.2**	**10.0**
Saving-Investment Gap (% GDP)	**-2.6**	**-1.7**	**-6.5**	**-7.8**	**-7.8**	**-5.3**	**-0.5**	**-8.5**
Private Sector Credit (%GDP)[4]	10.3	10.0	14.1	11.3	16.3	15.0	-	27.6
Financial Credit to Agriculture (%)	1.0	-	5.0	15.0	-	-	20.0	-

Source: MINECOFIN

Notes:

1) 'Average' not specified, therefore took a five year average.

2) Real GDP in constant 2001 (or 2000/01 if fiscal years) USD.

3) Poverty calculations use indicators from EICV II; assumes no change in coefficients.

4) Private Sector Credit as % GDP base is 2001.

Vision 2020 assumes the population will grow at an average annual rate of 2.7 percent, that the ICOR will be 4.3, (i.e. need to invest 30 percent of GDP to reach an annual real GDP growth rate of 7 percent), which will transform Rwanda to a middle income country by 2020 with a GDP per capita of 900 USD. Within this plan domestic savings would grow from -5 to a substantial 35 percent of GDP. This will result in the saving-investment gap moving from -2.6 to just -0.5 percent of GDP. As can be seen from table 2 the most up to date projections show Rwanda will have difficulty in achieving the Vision 2020 targets for savings. Attaining this target is, however, not impossible given the right policy instruments and savings products (as proposed in the strategy) .

The targets for EDPRS in 2012 compared to the latest projections for 2011/12 are more in line and coherent with the Rwandan economic realities. However, savings and private sector investment are not growing as fast as anticipated and the GDP per capita target of 346 USD is likely to be missed by a small margin.

Explanation for Divergence

Population projections account for one basic difference. The EDPRS takes an optimistic view that the population growth rate can be reduced over the medium term to 2.2 percent per annum. However, the latest projections use the higher census based estimates of 2.7 percent per annum. This higher rate has impacted on the GDP per capita growth rate and poverty incidence. To reach the targets the real GDP growth rate and therefore savings and investment rates will have to be higher to compensate for the growing population.

The ICOR assumptions can help explain the differences in investment levels. In the original Vision 2020 the marginal productivity of capital is assumed to be lower than the latest projections. The ICOR is set at 4.3 in Vision 2020 compared to 3.5 in the latest model; i.e. in Vision 2020 it was expected that more investment would be needed to achieve the same 7 percent growth rate. The latest ICOR projection is based on historical trends; the five year average being 2.8 and the assumption that as a country develops the marginal productivity of capital will fall. The current ICOR of 3.5 is in line with the EDPRS ICOR of 3.3. In this sense the targeted 7 percent GDP growth rate can be achieved with an investment rate of 24 percent of GDP instead of 30. However, to attain the target of 900 USD per capita by 2020 the growth and investment rate will need to be significantly higher.

Savings have been underperforming for many reasons [see following chapter]. As the EDPRS has a key goal of strengthening and deepening the financial sector there are visible improvements in the current projections over time. It is important to keep the momentum of these improvements and solidify them to reach closer to the Vision 2020 goals.

The proportion of credit to the agriculture sector is one key factor holding back domestic savings which is holding back the monetisation of the agriculture sector. Table 2 shows that this has remained at low levels receiving only 5 percent in 2007/08. It is possible that as recent reforms in the microfinance and banking industry are implemented they may have a stronger than anticipated impact on monetisation of this sector. The emphasis on rural microfinance could increase the savings and investment rates in agriculture.

Alternative Scenario

The best current projections are as shown in table 2. Under these conditions the savings and investment rates are growing rapidly and be positive aides to development. Yet as we have seen the targets will be difficult to be met. Below are reasons why it will be prudent to use the current projections as the best indicators rather than the original Vision 2020 and EDPRS targets.

GDP Growth has underperformed since 2000 as compared to the original Vision 2020 projections. Therefore the original 8 percent per annum growth rate is no longer sufficient to reach the per capita goal of 900 USD. From the current position of 263 USD per capita (real) in 2007/08 it would take an annual average of 14 percent real growth to achieve this target. There is no evidence that Rwanda has the ability to grow at 14 percent for 12 consecutive years.

Consumption is difficult to reduce in the trade off to increase savings and investment. In Consumption would have to fall via reduced private sector or government spending. In Rwanda this will be difficult. For the private sector this becomes undesirable as the growth in living standards begins to fall as this will slow the reduction in poverty. For the government there is much needed investment expenditure required which will provide a catalyst to future economic growth. In this sense the ratios of savings to GDP are not entirely elastic.

Macroeconomic Consistency is ensured within the financial programming model. For example there is a sustainable budget and balance of payments and a stable real sector where the growth rate is strong and inflation falling.

Finally these current projections are in affect a **Second Generation EDPRS.** These projections have been approved by the government and utilised in medium term budgeting for the central government. They built upon initial EDPRS projections and amended with due reflection of economic conditions.

Comparison of Results

To highlight these issues four scenarios have been formulated.

- First, 'EDPRS' this assumes the original plans for the EDPRS continue to 2020.
- Second, 'Current' this is the alternative scenario as discuss in section 4.3 above, i.e. the current indicators used by GoR in their budget framework paper 2009.
- Third, '900USD' this makes the achievement of 900 USD per capita in 2020 the key goal for the financial programming model. This requires an annual average growth rate up until 2020 of 14 percent.
- Finally, 'ICOR' assumes the original higher ICOR that Vision 2020 utilised.

All of the scenarios, apart from the 'EDPRS' scenario, are calculated in fiscal years and 2007/08 has been set as the comparable starting year. The 'EDPRS' scenarios are sourced from the latest version of early 2008 (which was calculated in calendar years). The following two figures compare results from each scenario.

Investment as a percentage GDP is shown in the figure 2.1. The two scenarios '900USD' and 'Current' have equal levels due to the assumption of a similar ICOR. The 'ICOR' scenario has a higher investment ratio (post 2012) as it assumes that a higher investment level is required to gain the same level of GDP growth. The 'EDPRS' achieves a higher investment rate as it had assumed a higher level of growth and investment would have been achievable up until now and over the medium term.

Figure 2.1 - Comparison of Investment:GDP Ratios (2007 - 2020)

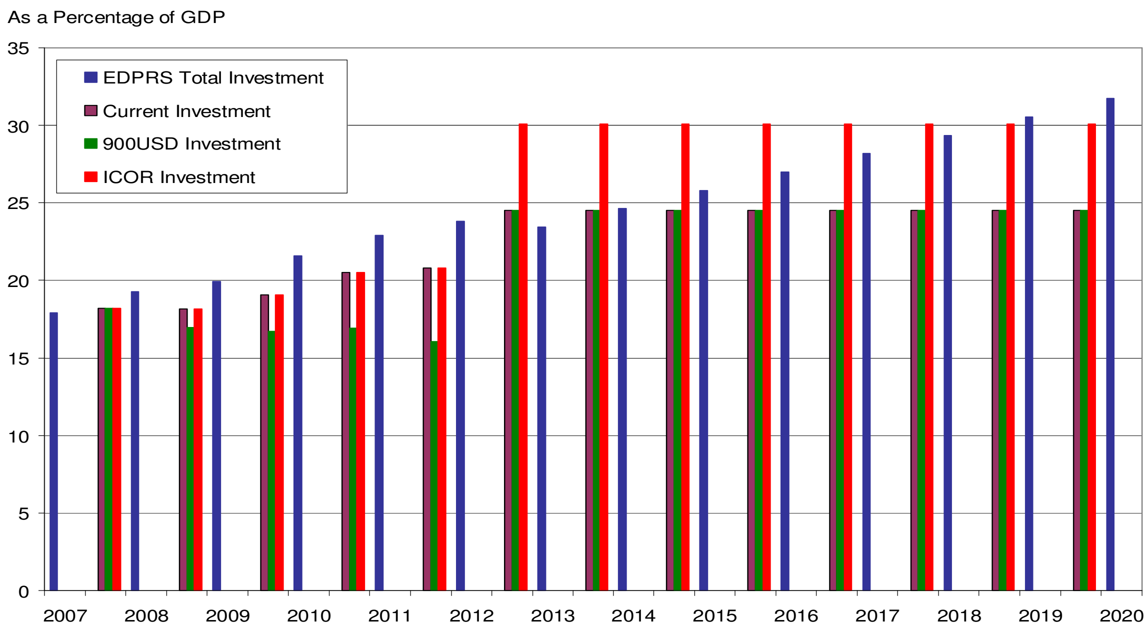
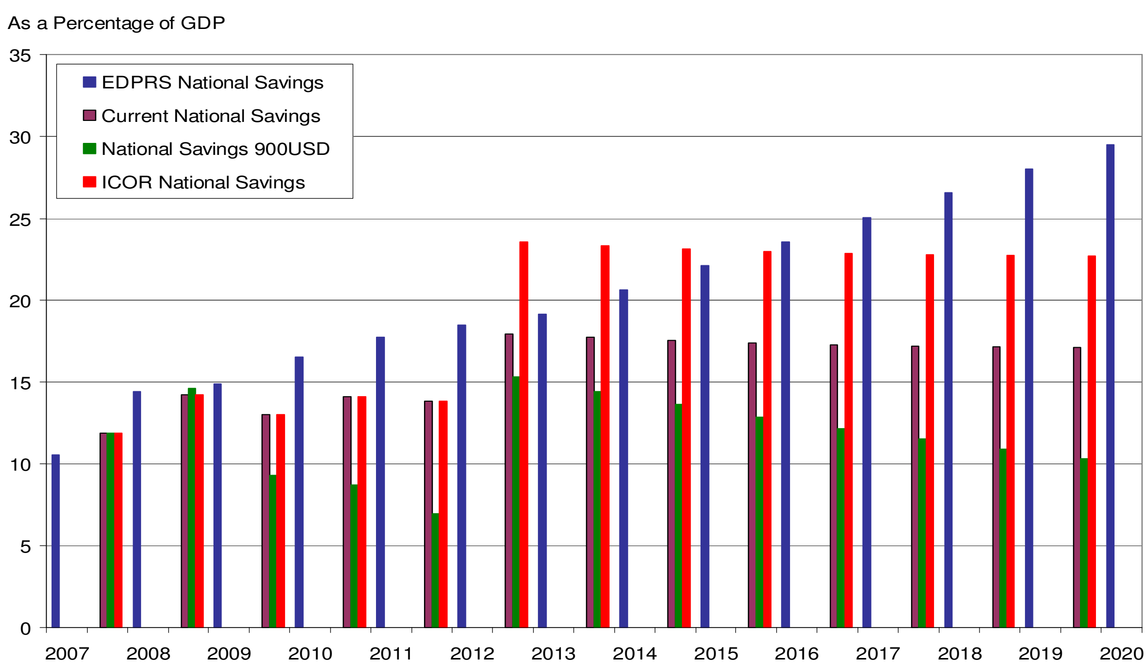


Figure 2.2 - Comparison of National Savings:GDP Ratios (2007 - 2020)



National Savings as a percentage of GDP results for each scenario are highlighted in figure 2.2. The 'EDPRS' has assumed a smooth linear growth in savings towards the 30 percent of GDP goal. The national savings rates suffer if the goal of 900 USD per capita is to be achieved, falling to 10 percent by 2020.

To conclude, the 'Current' scenario is not set in stone. A variety of outcomes are possible, the end results will depend on the strategies and polices implemented. The 'Current' scenario discussed is determined by the status quo. Investment and savings rates can be increased and so the savings-investment gap can be reduced. Well formulated Rwanda-specific savings mobilisation strategies can make a great deal of impact to make this a reality.

Macroeconomic Issues

Rwanda has a good track record in recent years of maintaining a stable macroeconomic environment. However, as pointed to above, severe global developments have occurred at the end of 2009 which the current projections do not account for. Risks to the macroeconomic stability particularly to savings and investments are spelt out below.

Inflation was identified as a risk in September, 2008 and tighter fiscal and monetary policy were accounted for in the current projections. However since then the inflation rate has risen sharply. Therefore, authorities have chosen to further tighten policies including cutting expenditures and tightening monetary policy further. The reduction of broad money runs the risk of reducing access to credit for the private sector this is particularly risky in the current environment of the global credit crunch.

Interest Rates have suffered despite the serious attitude towards inflation. There is a need to create an environment with moderate and positive interest rates to assist in the task of mobilising savings. If there is not a significant positive real rate then the incentive to withhold consumption diminishes.

The Financial Crisis has the potential to destabilise the projections via effects on remittances; donor grants; FDI; export prices; and so forth. As many investors are taking the less risky options the attractiveness of Rwanda for FDI reduces. Remittances may fall as Diaspora may be job insecure. This can lead to a reduction of incomes and finance for investment projects. The threat is being taken seriously by the authorities with continual monitoring of indicators. However, with less funds available in general across the board, the chances of large scale increases in savings over the next year are low.

In conclusion the lower than anticipated savings rates, both nationally and domestically, highlight the need for a concerted effort on the savings policies. If new, or improved emphasis on current, policies to mobilise savings are adopted and implemented Rwanda could see a much improved savings and investment rates; say from 2010 onwards.

Chapter 3: Key Issues Concerning National Savings Mobilisation in Rwanda

The Rwanda 2020 vision resolved to create an environment at the national and global levels, alike, which is conducive to development and the elimination of poverty. Success in meeting these objectives depends on good governance within the country and on the removing of obstacles that Rwanda faces in mobilising the resources needed to finance its sustained development. The mobilisation of domestic resources is the foundation for self-sustaining development, that is, domestic resources finance domestic investment and social programmes which are essential for economic growth and for eradicating poverty.

This chapter examines the strengths and weaknesses of savings mobilisation in Rwanda through a SWOT analysis, looks at the results of the FinScope. It also review the FSDP and the success since its introduction in 2007 by reviewing recent legislation and policy wins in Rwanda achieving its EDPRS and 2020 goals. Additionally, international case studies are presented from Ghana, India, Ecuador, Bangladesh and Singapore; these examine innovative ways of mobilising savings and presents lessons from which Rwanda can learn.

In the roadmap towards the implementation of the 2020 vision, several key issues are emerging that are likely to determine the programme's future. Therefore, to meet the Government's ambitious plans for poverty reduction, the economy needs to grow in the range of 7-8% (original target). The achievement of such performance requires high levels of investment in the range of 25 to 30%. For this to happen, the country needs to target a saving rate of 20% as a minimum and mobilise external savings. Across available existing statistics, the big challenge for Rwanda is likely to be the gaps between targets and achievements:

- The investment rate is far below the required levels to achieve the Vision 2020 objectives.
- The domestic saving performance is too low and cannot support the Rwanda development agenda.

It is therefore increasingly evident of the greater need and effort to provide a climate receptive to importation of resources from outside and the encouragement of domestic savings.

The primary responsibility for achieving these targets lies with the Rwandan government. This responsibility includes creating the conditions that make it possible to secure the needed financial resources for investment. It is the actions of domestic policymakers that largely determine:

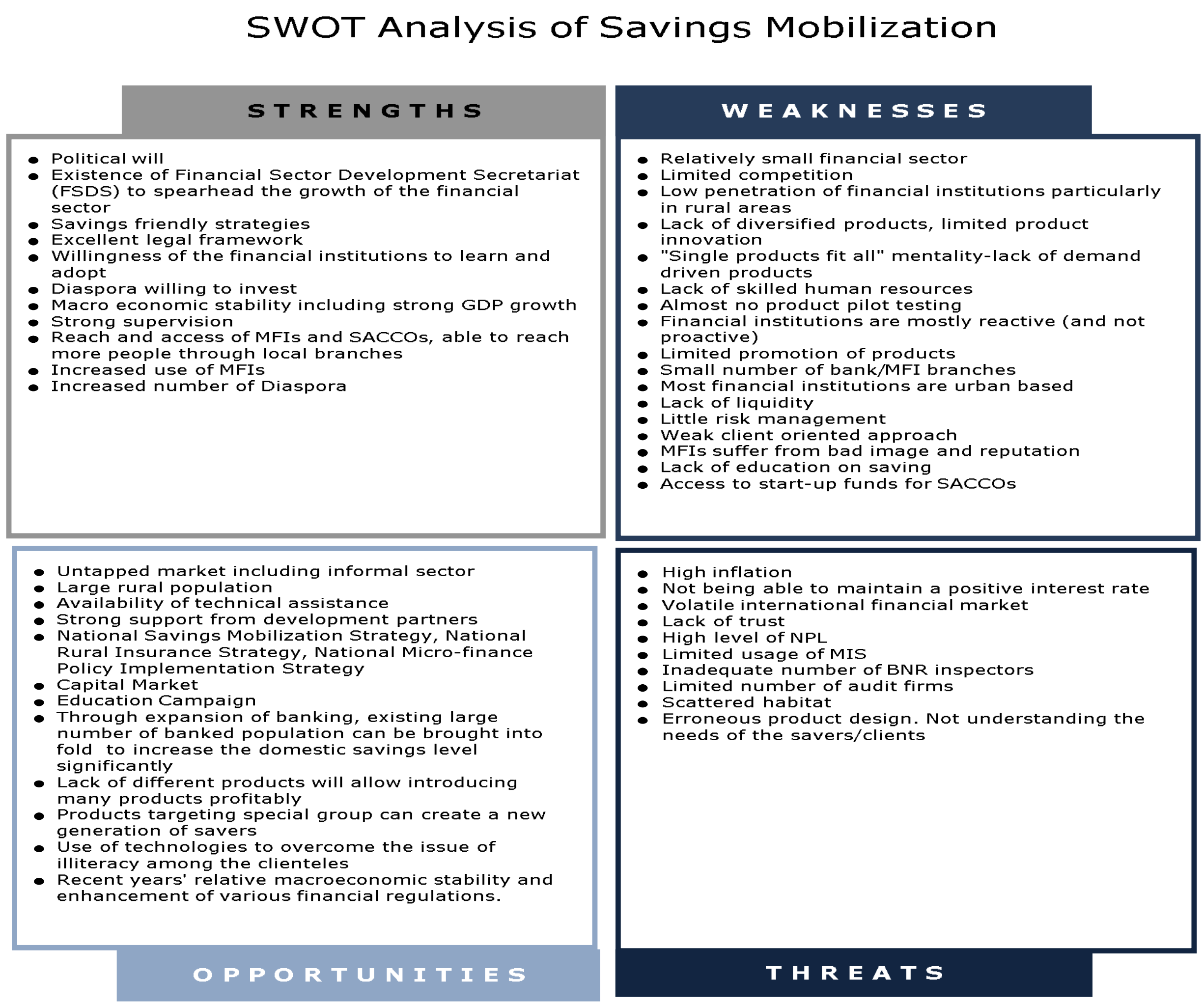
- the state of governance
- macroeconomic and microeconomic policies
- the public finances
- the condition of the financial system
- and other basic elements of Rwanda economic environment

Achieving such a positive environment is not simply a matter of political will; it requires changes to the systems and perceptions of the system by the public. Five of the six pillars outlined in the Vision 2020 document relate to Rwanda's economic development. The plan speaks of creating a more diversified and competitive economy, infrastructural development with the private sector as the main driver of growth in the country. The private sector must have the support of the government to enable it to flourish by implementing business and investor friendly policies.

Current savings and banking environment

A SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis was conducted to identify the areas within the current environment which require immediate attention and pieces which can be strengthened and built upon.

Figure 3.1 – SWOT Analysis of Savings Mobilisation

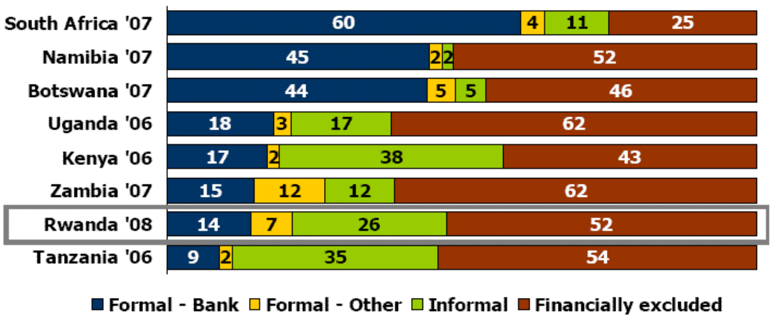


A top-down approach must be taken from the government to encourage a bottom-up approach from the public. The government ensure new policies and reforms address the current knots in the financial system. One of the largest being access to banking services.

According to the FinScope Survey in 2008, only 14% of the population currently bank formally, with 86% unbanked and 78% whom had never banked. The survey went on to report 52% of the total population was financially excluded, 21% were formally included through banks and other financial service institutions and the remaining 26% were informally served through other means.

Regionally Rwanda ranks low on the number using banks and high on the number financially excluded. Below shows how some of the numbers compare:

Figure 3.2 – FinScope Survey: Regional Comparison of Involvement in Banking Sector



Source: FinScope 2008 data book
Banked, plus Formal Other = Formally Served
Formally Served, plus Informal Other = Financial Included

Furthermore, when looking at the breakdown of people formally involved in the formal banking sector it is important to note the number *previously* banked. This is portion of the population is a prime target for the formal sector.

Figure 3.3 – FinScope Survey: Involvement in Banking Sector

	%	2008
No. of currently banked (formal) adults	14%	518 423
No. of previously banked adults in Rwanda	8%	278 680
No. of never banked adults in Rwanda	78%	2 896 704
No. of un-banked adults in Rwanda	86%	3 175 384
Total Population	100%	3 693 807

Source: FinScope 2008 Rwanda

The conclusions relating to banking, and saving in particular, from the 2008 FinScope Survey were the following:

- The majority of those with bank accounts use them to save (69%), with access to loans coming a close second (52%)
- The overwhelming barrier to banking is purely lack of income after paying for living expenses (83%). To a much lesser degree is the perception that banking is only for those with salaries (22%)
- The majority of individuals who have previously banked have lapsed, is income related rather than fee or access related
- Of the total sample only 7% were not involved in agriculture (livestock or crops), whereas of the proportion of those with a current or cheque account 23% were not involved in agriculture

- Of the entire sample surveyed 96% have never had a current or cheque account and 100% claim to have never used an ATM or debit card

Of those currently using the banking system below are the most recent figures, available at the time of publishing of this report.

Table 3.1 – Total Deposits of Those Using the Banking System in Rwanda

	Deposits in local currency including inter-banking loans	Deposits in foreign currencies, including inter-bank loans	Interest to pay	Other deposits in foreign currencies	Total Deposits
2000	57,226,672	38,569,496	752,393	652,339	**97,200,900**
2001	78,623,667	30,986,788	657,394	922,109	**111,189,958**
2002	95,631,195	36,742,977	1,096,232	1,132,232	**134,602,636**
2003	102,334,813	50,893,396	1,506,829	1,346,175	**156,081,213**
2004	109,194,859	53,193,277	683,343	1,764,024	**164,835,503**
2005	136,233,720	52,326,128	383,600	2,966,830	**191,910,278**
2006	183,912,688	70,899,879	966,210	339,069	**256,117,846**
2007	247,946,086	83,171,222	410,161	853,431	**332,380,900**

Source: BNR, Direction de Supervision, 2008

Strengthening the System through Reform

Reforms to the system through legislation are already taking place. The 1999 National Bank of Rwanda Act (i.e. The Rwanda Central Bank Act) was revised to grant it independence to formulate and implement monetary policy and ensure financial stability.

Milestones in Rwanda Financial System Development

1999 National Bank of Rwanda

Vision 2020 Published July

2005 World Bank/IMF Financial Sector Assessment Program (FSAP)

2006 Financial Sector Development Program (FSDP) Launched

Economic Development & Poverty Reduction Strategy (EDPRS) 2008-2012, September 2007

Draft Leasing Law May 2008

National Social Security Policy presented July 2008

Private Pension Scheme Draft Legislation, October 2008

Financial Sector Assessment Program

The 2005 World Bank/IMF completed the Financial Sector Assessment Program (FSAP). It described the Rwandan Financial Sector as 'narrow, shallow with an oligolopolistic banking sector and very low penetration of insurance services as well as undiversified financial products.' Since the reports steps have been taken to make the needed changes and studies launched to discover the best possible policy solutions to fit Rwanda. This was followed by the 2006 Financial Sector Development Program (FSDP) which was launched and the final report was presented in March

2007. The FSDP is an integral part of the EDPRS, below are some of the positive steps that have already been taken in order to reach the FSDPs goals.

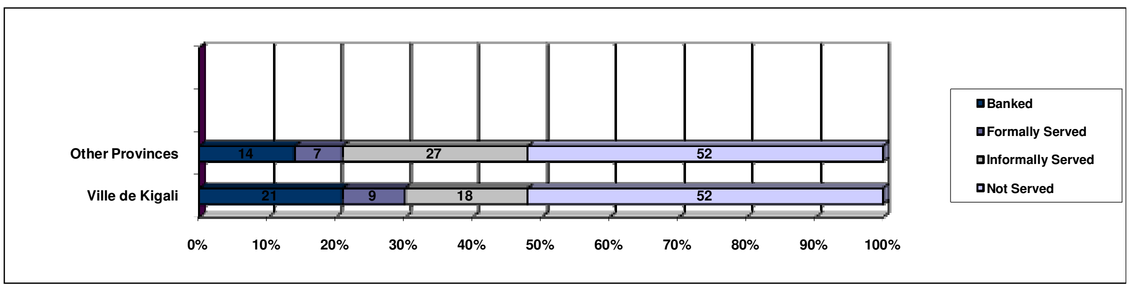
- Amending the Central Bank Act to allow BNR to regulate non-bank financial institutions
- Promulgating a new insurance law
- Transforming UBPR and issuing it with full commercial bank license
- Launching National Microfinance Policy Implementation Strategy

FSDP focused on four key areas (i) Banking and access to credit, (ii) Long term finance and capital markets, (iii) Contractual savings regulation (pensions and insurance) and (iv) Payments systems.

Banking and access to credit

Currently, access to formal banking is very limited outside of Kigali and other major towns. However, the number of informally served is higher outside of Kigali, showing the need for alternative methods of saving and banking.

Figure 3.4 – Access to Banking Services by Location



Of those banked at formal institutions, a third does not hold any other additional informal or other formal financial products. Those banked individuals who do hold other products are more likely to hold informal products rather than other formal products.[6]

The 2008 FinScope survey found 97% of those surveyed who were classified as formally banked, banked with Unions des Banque Populaire du Rwanda (UBPR).[7] UBPR recently underwent changes when a 35% interest was bought by Rabobank in June 2008. The remaining 65% majority stake is held by UBPR members.[8] However, there have been concerns expressed by those with the World Council of Credit Unions that the commercial interest and search for high net-worth individuals will trump UBPR's commitment to access by low income individuals and groups.

While Microfinance Institutions (MFIs) play an important role in increasing access to credit, particularly in rural areas, they lack the adequate management, are not as well supervised as banks and a number of MFIs are financially weak.[9]

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[6] *FinScope 2008 data book 16*
[7] Bank Commerciale du Rwanda 3% ; Eco-bank 2% ; Bank Kigali 1% ; Fina Bank 1%; *FinScope 2008 databook 83*
[8] Rabobank « *Rabobank acquires 35% in Banque Populaire du Rwanda* », www.rabobank.com
[9] *Rwanda Financial Sector Development Program*, March 5, 2007; Murgatroyd, Dry, Power and Postgate

There have been substantial improvements as well, the Financial Sector Development Secretariat has addressed the issues highlighted in various different reports such as the FSDP and the FinScope, the Government of Rwanda (GoR) has taken steps to address some of the issues mentioned above. The GoR has approved a Microfinance Policy and Microfinance Implementation Strategy and has established and strengthened the Association of Microfinance Institutions of Rwanda (AMIR). Furthermore, concerned Managers and Directors are now under prosecution for embezzlement and misappropriation of funds, and other crimes which led some microfinance institutions to bankruptcy, this has had a very positive impact on the governance in the sector and on the reconstruction of trust by the public.

The banking sector as well has experienced progress. As of the 30/06/2008, consolidated assets of banks total 492 billions Rwf (5.2% increase from December 2007). Over the same period of 6 months, credit increased by 14.8% (from 279.9bn to 321.2bn) and deposits by 3.9% (from 363.2bn to 377.3bn)

Additionally, The Non Performing loans rate decreased drastically from 14.3 % in December 2007 to 8.8% in June 2008 (target: 5%); the solvency of the whole banking sector was strengthened from 15.1% to 16.6%.

Just as holding managers and directors to account has strengthened the public image of MFIs the compliance of all commercial banks and BRD with BNR’s capital and governance requirements and international financial reporting standards (IFRS) will further increase public confidence in the system as a whole.

Long-term finance and capital markets

The building of a capital market for raising long term debt and equity is essential to Rwanda’s long term development strategy. However, long-term investment potential and the ability to mobilise long-term savings will be extremely limited as long as there are no feasible ways of raising long-term capital in the domestic market place.

The FSDP outlined the three elements that a viable capital market relies upon:

i) A sound but facilitating foundation of conditions and regulations within which issuers and investors of long term funds can transact business with reasonable confidence and efficiency;
ii) Effective demand for long term funds (from users that need these funds) that can be operationalised in the form of implementable instruments; and
iii) An effective supply of long term funds (from those that have long term funds to invest) that can be made available to meet these demands.

Rwanda’s relatively stable and low inflation macro-economic environment enhances the feasibility of developing capital market activity. [10] Recent legislation relating to housing and pensions has aided in the development of the capital market.

[10] *Rwanda Financial Sector Development Program*, March 5, 2007; Murgatroyd, Dry, Power and Postgate

The development of corporate debt market relies on developing a market on Government issued securities. The treasury 'Yield Curve' helps to bench mark the corporate yield curves and is essential for growth of a 'debt market'.

It may be useful to consider a number of measures to encourage the well-established companies to enlist at the newly formed 'stock market'.

Contractual savings regulation (pensions and insurance)

Rwanda's Nonbank Financial Institutions (NBFIs) (CSR and insurance companies) are of critical importance as they are presently the primary source of the country's long term funds and an invaluable developmental resource, in addition to the extremely important functions they perform in providing a social safety net to protect the livelihood of those that retire and of families whose primary income earner dies.

CSR has not developed prudent investment standards, investment skills and liquidity management policies that are necessary to ensure a sustainable financial position.[11]

The Central Bank Act (which was policy recommendation of FSDP) amendment to allow for the regulation of non-bank financial institutions has given need oversight and regulation to the industry. The goal mentioned in the FSDP is a financial sector policy framework will lead to the creation of additional NBFIs in the future including private pension plans and leasing companies.

It is expected that the new *National Social Security Policy* is also going to play a positive role in enhancing and mobilizing the savings. This PFP (Provident Fund Pillar) if can be properly introduced and managed can definitely augment the national savings. Wider use of insurance can also be seen as an important tool of savings mobilisation.

Payments systems

An efficient payments system constitutes an essential component in the national economy and financial sector infrastructure. The FSDP called for the highest priority to be given to a national payments strategy embracing the use of all payment services instruments such as checks, credit and debit cards, ATMs, automatic salary and pension deposits, etc.

One of the policy recommendations in the FSDP was for the formation of a National Payments Council. BNR established a National Payments Strategy (NPS) and Council in April 2008. The NPS stated one of the major weaknesses within the system is the cash based economy. Most of the economy is served by cash as the main payment instrument.

The table 3.2 shows the structure of selected Payment instruments in Rwanda as per the first Quarter 2008[12]

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[11] *Rwanda Financial Sector Development Program*, March 5, 2007; Murgatroyd, Dry, Power and Postgate

[12] BNR – *National Payment System Strategy and Framework*; www.bnr.rw

Table 3.2 – Use of Payment Instruments in Rwanda (Q1 2008)

Instrument	Percentage of the total volume
Cash operations	
1.Cash withdrawals at bank counters	69.15
2. Forex withdrawals at bank counters	5.90
TOTAL	***75.05***
Non Cash operations	
1.Cheques in clearing house	11.52
2.Credit transfers in clearing house	3.40
3.Certified cheques	1.45
4.Travellers'cheques	0.03
5.ATM operations	7.94
6.POS operations	0.62
TOTAL	***24.96***

The main objectives of the NPS are (i) to reduce the currency in circulation outside the banking system to 10% by the year 2020 (ii) following the first goal – the objective is to turnaround the structure that makes non cash payment operations at least 75% of the total operations by 2020 (iii) to accelerate the rate of economic growth by increasing the efficiency of economic management through reduction of transactions costs.

There are also a variety opportunities for the banking and financial sector to take advantage of and to build upon. One of the main opportunities is the support of the government in relation to building an ICT based economy and with it's prioritising of Payment Systems. There is opportunity for increased access to rural areas through a fast growing microfinance industry and the restructuring of BPR into a fully fledged bank. Also, all Rwandans above the age of 16 are in possession of an electronic plastic National Identity card which will have a banking aspect; which is a very strong basis on which to build the Rwanda Payment Card.[13]

Legislation and Policy Reform

Spearheaded by the Government, a number of new legislation and policy reforms have taken place recently. These legislation and policy reforms were analysed and kept in mind while developing the Savings Mobilisation Strategy in order to maintain consistency with the overall financial sector framework. Overall, the policy reforms were found to be savings friendly. Some of the relevant legislation and reforms are highlighted below.

Draft Leasing Law

The year 2008 has seen a high rate of activity on the creation of legislation aimed at economic development. In May 2008 the Draft Leasing Law was presented, which dealt with the establishment of Finance Leases on non-consumable assets, and applies to finance lease transactions and the variations of finance lease transactions, including the sale and leaseback, secondary lease and sub lease.[14]

[13] BNR – *National Payment System Strategy and Framework*; www.bnr.rw
[14] Draft of legislation on *Finance Leasing Abrogating Law No. 06/ 2005 of 03/ 06 /2005 ESTABLISHING And Regulating Conditions Governing Lease Operations*, May 2008

The Law grants the National Bank of Rwanda the right to set the conditions for the licensing and regulatory mechanisms for Leasing Operations in Rwanda and it establishes a Lease Registry to be kept by the Registrar General of the Rwanda Commercial Registration Services Agency (RCRSA). The Lease Registry is to be made open for inspection by the public.

Additionally, the rights and obligations of the lessor and lessee are guaranteed and outlined in the Law. A proper functioning leasing sector is invaluable in mobilising savings as well as enhancing investments in productive sectors. However, it is suggested that a draft guideline can be prepared so that both the 'lessor' and 'lessee' are fully aware of respective roles and responsibilities. Most importantly, clear guideline should be in place in case there are differences in opinions in interpreting the laws.

National Social Security Policy

In July 2008 proposals on how to change the National Social Security Policy were made and presented to the Ministry of Public Service and Labour. The aim of this new policy is to transform the existing social security system which is more adequate in meeting the needs of nationals at a realistic rate. The new proposals see the introduction of a Provident Fund Pillar (PFP) to the existing Pay-As-You-Go system, additionally it will be mandatory for all salaried (excluding self-employed) workers. Other proposals included are the introduction of pre-retirement withdrawals to incentives its workers to be part of the overall social security system; the management of the entire social security protection provisions under one body, as is the case of other countries in the world; creation of a comprehensive plan to progressively extend coverage to the remaining population; tax exemptions on contributions and several others.[15]

The latest National Social Security Policy provides various recommendations to be implemented by the Government of Rwanda. Following are some key actions that need to be prioritised to facilitate savings mobilisation.

Table 3.3 – National Social Security Policy Recommendations[16]

Key Issue	Action
Pensions Branch	
Insufficient coverage (only 7% of the population is engaged in the formal sector)	▪ Use of associations (i.e. SACCOs) based on occupation or professions, social networks and institutions either to enforce mandatory, or encourage voluntary, participation
Benefits levels are very low (i.e. A contributor with 15 years of service will obtain a pension equal to about 30% of his average monthly salary)	▪ Increase contributions (or otherwise increasing NSSF financing) to allow for and support larger benefit levels, or at a minimum, provide resources for automatic inflation-based adjustments
The Pension Branch has a significant funding deficiency	▪ Make parametric changes, such as changes to the retirement age, salary base, and accrual rates under the benefit formula ▪ Improve investment return on assets by

[15] *Republic of Rwanda, National Social Security Policy*, Ministry of Public Service and Labour, July 2008
[16] See Implementation Plan for specific policy actions

	reorganising and strengthening NSSF's asset management of pension assets, including increasing internal capacity, using third-party asset managers, and instituting international best practice principles
Medical Care Branch: Policy Issues	
Deficiencies in coverage-Pensioners (obtaining benefits from NSSF) are not provided coverage under the insurance regime managed by RAMA and are required to rely on the mutual health care insurances, even though they were covered by RAMA during their working lives. Additionally, certain groups of the Rwandan population continue to face financial constraints in obtaining access to medical care, despite the existence of mutual health care insurances.	▪ Cover all pensioners under RAMA ▪ Cover all independent workers (those working in professional and skilled trades) under RAMA ▪ Register at least 95% of those individuals working in informal and rural sectors in mutual health insurances ▪ Clarify and enforce Labour Code provisions relating to compulsory affiliation of all employees and the employers' obligation to provide medical care to employees
Financing deficiencies: the medical insurance regime is often in deficit, because the cost of provided care exceeds the received contributions	▪ Review and adjust insurance premium levels ▪ Identify and eliminate administrative expenses attributable to waste, poor management or insufficient information systems ▪ Review of all expenses incurred for the provision of medical treatment at all levels (clinics and hospitals), and identify areas of cost-saving

The introduction of PFP will definitely be a boost in enhancing the domestic savings level. This is actually an involuntary way of savings and hence complimentary to our Savings Mobilisation strategy. Over time, encouragement should be provided to populations to save in different ways.

Regulation of Private Pension Schemes[17]

October 2008 saw draft legislation for the regulation of private pension schemes and accounts in Rwanda. This legislation is the first step in regulating private pension schemes and protecting investors. Proposal in the legislation call for the supervising of the establishment of private pension schemes and other long term savings schemes employers establish for the purpose of providing benefits to their employees. It establishes a framework to regulate and supervise and the management of Personal Retirement Savings Accounts promotes individual participation in Pension Schemes and other long-term contractual savings instruments and the development of a sound financial and service industry necessary for their establishment and prudential management and maintenance.[18]

Introduction of Private pension schemes will further enhance the level of domestic savings. Although new regulations have tried to define roles and responsibilities of different stakeholders, extreme care and supervision will be required going ahead. Further thoughts and analysis are required to address some of the key issues addressed below:

[17] See Implementation Plan for specific policy actions
[18] *Draft Legislation for the Regulation of Private Pension Schemes and Accounts in Rwanda*, October 2006, prepared by Russell Galer, consultant to the National Bank of Rwanda

- Investment managers & custodians must consider the rights of beneficiaries of the Pension schemes first and foremost. What will happen if there is a conflict of interest between employees, employers & investment managers?
- How the regulators will ensure that the pension schemes are not underfunded?
- Given the lack of financial instruments and capital markets, how the investment managers will be able to provide 'inflation beating' positive returns for the scheme beneficiaries? [19]

Organisation of Insurance Companies

The Law governing the organisation of insurance companies was created with the purpose to govern the licensing, supervision, control and regulation of insurance business and insurance intermediaries by the Bank of Rwanda.

The operating and carrying on as an insurance business or acting as an insurance business intermediary without a licence was made illegal (unless exempted through Chapter 2, Article 3 of the Law). It established minimum solvency margins, premium rates for each class and sub-class of insurance, auditing requirements and other best practices.[20]

This Law has created the framework for an industry in need of guidance and growth, furthermore, it aids in the establishing of confidence in the private sector systems and financial sectors by creating regulations and rights.

Development of a healthy insurance sector will further strengthen the domestic savings level. Insurance is not only a risk mitigation strategies but can also help to mobilise individual and group savings, as they become less fearful of unknown and be more confident in estimating their future potential cash flows. In many countries a number of savings products have been created by combining the benefit of insurance and regular deposits. An efficient and capable insurance sector will make the financial sector more vibrant and will help to more people reap the benefits of saving & other financial activities.

Case Studies

Savings mobilisation is an integral part of economic development. It helps build the capital base which has a direct affect on a country's growth. Building a base of capital in the private sector allows for investment to take place, this base must include the poor, not just the wealthy, everybody in the country has ownership in Rwanda's development and all parts of society need to be included in the formal financial system to ensure Rwanda becoming a middle income country.

When people are brought in to the formal sector and savings are mobilised they become directly involved in the country's future. The future includes becoming self sustaining and minimizing the dependence on foreign aid by increasing the economic base and mobilising capital.

Savings mobilisation has been a successful tool in achieving these goals and this section explores at a glance the experiences of:

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19 Later, we will propose a number of new products and financial instruments. It is hoped that some of those instruments will also be used by the Pension Schemes managers.

[20] *Law Governing the Organization of Insurance Companies, Republic of Rwanda*

- India
- Ghana
- Ecuador
- Bangladesh
- Singapore

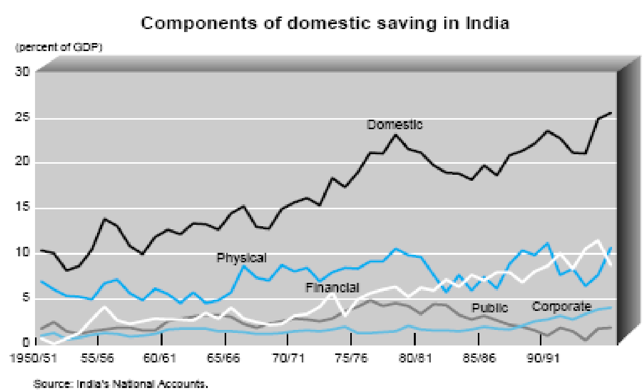
All of these countries have utilised savings mobilisation to encourage and further their economic development. These savings mobilisation policies and programmes have been used in close conjunction with legislation and policy reform. The different cases explored include:

- The increasing of competition
- India's Self-Help Group Bank Linkage Programme
- Long Term Savings Act 2004, Ghana
- Use of Traditional Methods with a Modern Perspective
- Increasing Confidence
- Global Access
- The Grameen Bank model in Bangladesh
- Strong Financial Policies
- Post Office Savings Accounts, Singapore

Each case study should be viewed within their unique context and each solution has been adapted to the specific country's needs and issues, which has guaranteed their success. In looking at programs and policy options to mobilise savings in Rwanda should identify similarities, such as the issue of access to the formal banking sector and adjust proven programs to fit its specific issues. The solutions must be bespoke.

Case Study: India

Traditionally India has higher savings rates in comparison with other countries and savings has consistently risen over the past four decades. The biggest changes to the system came in the early/mid 1990's when major changes to the financial market and government policies to increase access to financial services took place.



Increasing Competition and Diversifying Products

The three largest institutions for savings were all government owned before the mid-1990s, with the Unit Trust of India (UTI) accounting for 80% of the country's mutual fund business. This offered customers little choice in products and the limited competition created limited investment. The government opened the markets to more competition in the mid-1990s and as a result there were more long term savings instruments, pension funds, life insurance and mutual funds on the market which provided more attractive investment opportunities by giving people more flexibility in their portfolio. This improved allocation of savings saw investments flowing to the most productive investment projects and this investment was one of the driving factors that helped produce a high rate of growth. Can you add one sentence on the diversification aspect?

Guaranteeing Access to All

In 1991 the Reserve Bank of India's (RBI) Rural Planning and Credit Department (RPCD) combined with the National Bank for Agriculture and Rural Development Bank (NABARD) started a pilot project to link Self-Help Groups (SHGs) and banks. The SHG-Bank Linkage Program set out bring rural savers into the formal market, despite there being 150,000 rural banking outlets a 1981 RBI survey found that 36% of the rural poor were still using informal sources of credit.

SHG-Bank Linkage Program
Cumulative Progress (1992 to 2002)

Up to end March	# of SHGs financed by banks	Bank Loans (Rs. Million)	Refinance from NABARD (Rs. Millions)
1999	32,995	571	521
2000	114,775	1,930	1,501
2001	263,825	4,809	4,007
2002	461,478	10,263	7,965

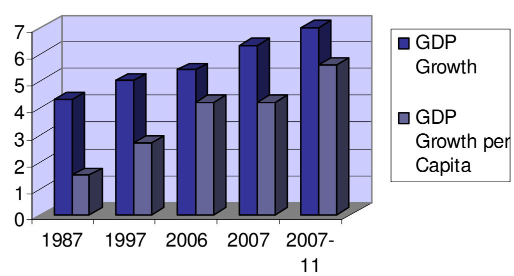
The Program[21] encouraged state banks with rural branches to give loans to SHGs as opposed to leaving this up to Microfinance Institutions. By the end of March 2002 there were 461,478 SHGs linked formally with banks, equating to 7.87 million very poor families.

After the success of the initial program commercial banks followed suit, in particular ICICI Bank saw this as an opportunity. ICICI Bank, India's second largest bank, went above and beyond complying with the government regulations, which requires a minimum of 25% of total private sector bank branches to be in rural/semi urban area. ICICI began to look at how rural banking could be done profitably and entrenched the philosophy that the rural market could become the engine for growth.

Partnerships with MFIs and rural kiosk operators built upon the strengths of each organisation and through these partnerships new innovations in access have been developed including mobile ATMs.

Case Study: Ghana

Ghana has seen a series of macroeconomic reforms to stabilise the financial market. Since 2004 some of the legislative reforms have included the following: Banking Act of 2004 and Banking (amendment) Act 2007, Venture Capital Trust Fund Act 2004, Insurance Act of 2006 and the Long Term Savings Act 2004.



[21] Source: Case Study Series, University of Michigan, Department of Corporate Strategy and International Business; December 2003

The main principles of the Long Term Savings Act are to establish long term savings schemes, part of on-going pension reform, broaden retirement options for Ghanaian workers and increase demand for long term debt securities on the Ghana stock market

These Acts along with others have opened the market to increase the products available to the public. The new products and more liberal market have encouraged competition and investment within the country.

Since their introduction there has been a steady increase in real GDP growth from 3.7% in 2000 to 6.2% in 2006, furthermore interest rates on loan have declined from 42% in 2000 to 10.2% in 2006.

Susu Deposit Account, using traditional means to spur innovation

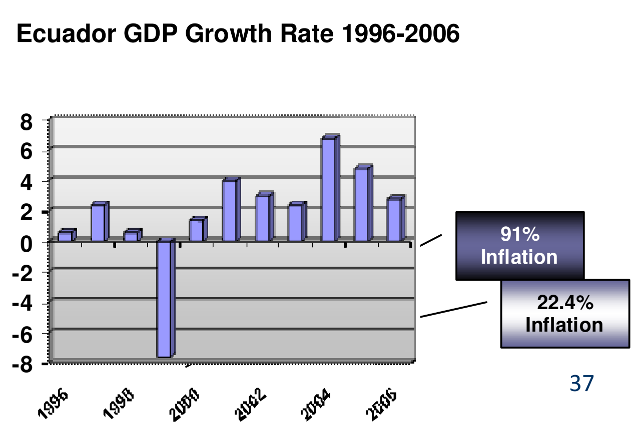
Susu deposit accounts are for people with small cash holdings who find it difficult to leave their workplace or home. These accounts are operated through a network of the banks' mobile banking staff.

The banking staffs physically visit the account holders to collect their deposits; the evidence shows this has been extremely successful. In 1999, Atwima Kwanwoma Rural Bank of Ghana introduced this traditional mobile collection savings product and by 2002 the bank's deposits had grown from $639,000 to $3.7 million and the number of accounts had doubled to 44,423. Half of the new depositors and over a fifth of the new deposits were accounted for solely by the *susu* product.

This had proven so successful that when Barclays entered the Ghanaian market it introduced its own *susu* product. Barclays realised that this micro-entrepreneur market accounted for a £75 million economy. Barclays took this product to a new level by financing the Susu collectors, which enables them to provide their clients with loans, helping them to establish and grow their business. Additionally, with the backing of major international banks such as Barclays, confidence is instilled in the system and encourages more to enter into the formal savings sector.

Case Study: Ecuador

1999 saw a dramatic devaluation of the Ecuadorian currency, the sucr, which was the result of political turmoil in the 1980s. The government imposed a temporary bank closures and a freeze on deposits. This only fuelled mistrust



in the financial system, as a result people retreated from the formal sector back to the informal with 'mattress banking'.

15 of the country's 38 banks failed, with four being taken over by the government. The largest bank in the country closed its doors in 2001.

Credit Unions – Fast Recovery, Instilling Confidence

Despite the economic crisis the credit unions in Ecuador were able to bounce back faster and more successfully than the traditional banking system; this was because of their unique position within the market place. They have a lower delinquency rate at 3.3% and they have a stronger capital position with equity of 30% of total assets.

It was through sustained savings that the credit unions were able to survive and strengthen. The assets of the country's 26 regulated credit unions decreased 49% from 1998 to 1999 to $75 million and by December 2001 they were exceed 1998 levels and were at $184.5 million.

The World Council of Credit Unions (WOCCU) has been working with Ecuador market since 1995 on savings programs. The program focused on four areas (1) credit union membership; (2) credit union financial, supervision, and government policies; (3) credit union savings deposits and lending services; and (4) credit union performance. The main goal of the project was to expand the credit unions' micro-enterprise financial services with the ultimate goal of the internally generated savings of the credit unions to exceed loan demand creating excess liquidity. In order to increase the funds available for micro-enterprise loans the WOCCU focused on the following seven areas:

1. **Institutional strengthening** steps that improve the credit unions' entrepreneurial and business efficiency
2. Upgrading credit union **management and staff capability** (training and technical assistance)
3. Upgrading credit union lending, collections, savings and **internal control policies**
4. Establishing **minimum financial, compliance standards** that protect the mobilised savings
5. **Market research** to determine average, and median, loan and savings accounts sizes over time, and the range of loan products needed to satisfy micro-enterprise loan demand
6. Introduced **an array of credit products** to serve micro-entrepreneurs
7. **Prudential disciplines** to protect members' savings[22]

Today, The Ecuadorian credit unions serve nearly 1 million people and nearly a quarter of the labour force. The table below shows the early success of the program.

19 project credit unions savings & lending activities (US dollars)				
	December 1995	December 1996	December 1997	June 1998
Credit Union Members	498,501	524,776	535,218	538,485
Savings Mobilised	$51,779,402	$57,402,228	$71,636,233	$69,432,436
Savings Accounts	…	…	312,187	622,795
Loans Financed	$73,025,150	$72,792,933	$97,569,416	$93,859,656
Loans Granted	…	…	73,126	64,008
Total Assets	$92,541,299	$103,308, 823	$129,639,888	$127,840,559

[22] *Ecuador Credit Unions Micro-Enterprise Innovation Project*; World Council of Credit Unions Research Monograph Series Number 14; October 1998

Source: World Council of Credit Unions

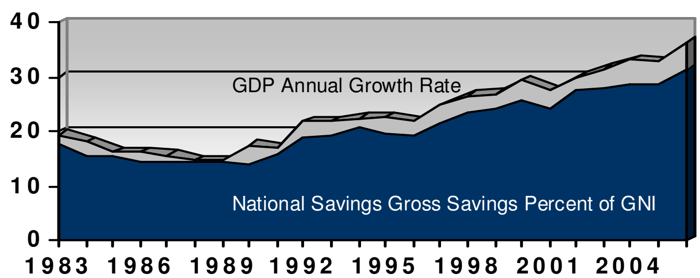
Increasing Access through Global Reach

As with other developing countries, people in Ecuador depend on remittances. In order to give those in Ecuador better access to these remittances Banco Solidario partnered with a number of Spanish banks, where the vast majority of the diasporas have chosen to live to create remittances products.

These products did two things, one it allowed those living abroad to send money back more easily and could be extended credit to use in Spain or in Ecuador; two it provided an ATM card to the receivers in Ecuador to withdraw their remittances at anyone of Banco Solidario's 24 branches, at any BANKRED 836 ATMS in 2002 and at any of the 100 cooperatives with which the bank formed strategic alliances. Other banks have followed suit from this model and it has proven successful around South America.

Case Study: Bangladesh

Bangladesh is a country which has come out of the Asian economic crisis relatively unscathed and has battled natural disasters of varying degrees and since the 1990s has been able to maintain a steady growth rate of 5%.



Some of the reasons behind this are the access to micro credit and the variety of financial products available to all levels of society, in particular the poor and destitute.

Grameen Bank – A Model for the Developing World

In 1976 the Grameen Bank started as a project of the University of Chittagong and in 1983 was transformed into an independent bank by government legislation. The purpose of the bank was and still is to provide financial products and services to the poor and in particular women. It is 90% owned by its borrowers with the remaining 10% being government owned[23]. In 2006 the founder, Professor Muhammad Yunus, Head of the Rural Economics Program at the University of Chittagong won the Nobel Peace Prize for his work with the Grameen Bank.

Since its inception it has revolutionised the microfinance system in Bangladesh by providing no collateral, no group-guarantee or liability loans and all loans are fully financed through the Bank's deposits; in 1995 the Bank decided to stop receiving donor funds. The recovery rate is 98%, and 97% of loans are given to women. The low interest rates enable it to reach the poorest of society and to maintain its high recovery rate.

[23] www.grameen.com

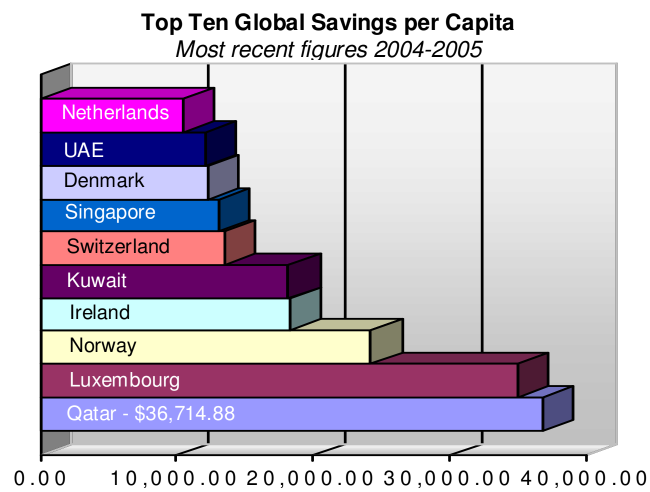
Grameen has four main interest rates, all are simple interest: 20% (declining basis) for income generating loans, 8% for housing loans, 5% for student loans, and 0% (interest free) loans for Struggling Members (beggars).

Grameen at a Glance										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
# of members (1,000s)	2,368	2,357	2,378	2,379	2,483	3,123	4,060	5,579	6,909	7,411
# of centres	66,712	67,691	68,467	68,591	70,928	74,703	81,609	99,502	121,755	136,619
# of villages	39,045	39,706	40,225	40,447	41,636	43,681	48,472	59,912	74,462	80,678
# of branches	1137	1149	1160	1173	1178	1195	1358	1735	2319	2481
Balance of Deposits*	0.11	0.11	0.11	0.13	0.15	0.23	0.35	0.48	0.63	0.76
Deposit to Loan Ratio	33%	40%	48%	56%	71%	83%	104%	113%	133%	143%
Deposit to Borrowing Ratio	48%	48%	58%	73%	128%	316%	718%	1655%	2384%	2909%

**billions of US$*

Case Study: Singapore

Singapore ranked seventh for the highest savings worldwide in 2005, with $13, 057.732 per capita. Some years Singapore has had a rate of savings above 50% (1995, 1998, 1999) significantly higher than neighbouring countries.



The majority of Gross Domestic Savings was from the private sector, which was adversely affected by the Asian financial crisis in 1997, which produced a negative growth rate of -4.7% in 1998.

However, the strong banking sector and the fact that the majority of loans were domestic loans limited the impact of the financial crisis. The high savings rates are not just among the wealthiest, but within all elements of society.

Post Office Banking – Bringing the Bank to the People

There is no one model for post office banking, but there is one main concept behind it – access. By utilising the Post Office the reach of the formal financial sector is dramatically increased, especially in rural areas and to low income members of the population.

The Post Office Savings Bank (POSB) allows for banking services via the post office, this includes a remittance centre, loans, savings, credit and debit cards and insurance. POSB was acquired from the government by DBS (Development Bank of Singapore), which is one of Asia's largest financial services provider, in 1998. This merger with a major institution allowed for customers of both banks to have access of a broader range of facilities, in particular ATMS. POSB has the largest ATM network and has the most branches in the country.

The ATMS allow for out-of-hours banking. The ATMs provide some of the following services mobile phone top-ups, deposits, fund transfers, bill pay and cash. They also provide cash and coin deposit machines, the coin deposit machine are particularly important in bringing in the lower income savers.

They also offer a Passbook Service. With one a swipe of a magnetic strip at one of the machines a customer can place their transaction record book into the machine and it will automatically update the page. Through agreements with other banks, such as Citibank, the POSB acts a remittance centre. With Citibank the once the transaction is completed POSB is then charged with delivering the cash direct to the door of the recipient without them having to make a trip to the bank or the post office. This allows direct access especially for the elderly and disabled.

Additionally, the bank offers low cost basic savings accounts and exempts children, full time students under-21 and ex-National Servicemen from bank charges. Keeping with its tradition to provided affordable services to all allows the POSB to be effective in all areas of society.

Lessons Learned

By examining the case studies from India, Ghana, Bangladesh, Singapore and Ecuador there are some lessons from their experiences from which Rwanda can learn. While each country is different and its experiences unique there are consistencies in each case that translate across borders.

Innovation – producing unique solutions for Rwanda

If one thing is evident in all of the case studies it is, there is no one model to follow or one specific solution. In order to address country specific issues creativity and innovation must be used, such as with access to remittances through ATMs in Ecuador and the modern use of the traditional *susu* collector in Ghana. Rwanda should look at its system and the traditional methods of saving, banking and other elements of the financial system and determine what can be modernised and brought into the fold of the formal sector. It could be something with tontines and making banks and credit unions accessible to them or the use of the post office; no matter the solution innovation and customisation of models will make them more effective.

Access is key

A common theme in all of the case studies and literature on financial systems in the developing world is the issue of access; when access is increased the number of people brought into the formal sector rise, which has a direct effect on savings, investment, loans and eventually growth. Currently 86% of the Rwandan populations have *no access* to formal banking products and services,[24] addressing this and making it a high priority will have a dramatic affect on the financial system, as has been the case in other countries who have tackled the access issue.

Competition and Variety of Financial Services Products – increasing customer choice

An increase in competition helps to diversify portfolios and with competition comes choice; there should also be an increase in the options for the investor. Such was the case in India and the spreading of investments and savings into different mutual funds, pensions and other long term savings products allowed for a broader scope of investments in infrastructure and other projects, thus aiding growth in the country. A concentration on diversifying the financial system and the products on offer directly deals with the comment from the World Bank/IMF's Financial Sector Assessment Program (FASP), which stated 'narrow, shallow with an oligopolistic banking sector and very low penetration of insurance services as well as undiversified financial products.'

Strengthening the Financial System through legislation and policy

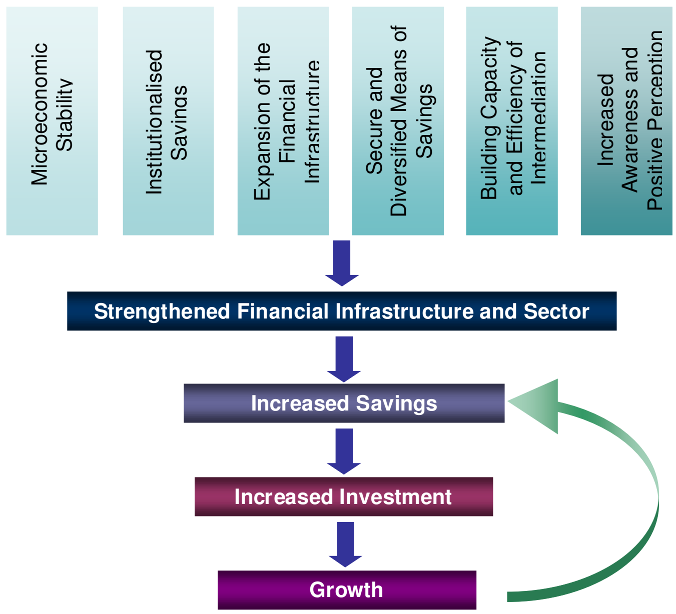
A strong financial system allows countries to weather storms and crises; such was the case with Singapore during the 1997 Asian Financial Crisis. Due to the fact that Singapore had a strong system which contained various levels of regulation and oversight insured the country from disaster when others in the region where suffering detrimental losses. Good legislation and financial policies lead to confidence in the system and confidence provides the population the needed trust and feeling of security needed to invest, as seen in Ghana's recent banking and financial system reforms. As the reforms have taken place the amount of savings has increased. In an environment where only 21% of the population is formally banked (Rwanda's current situation) there is real need to instil the confidence in the system to encourage those in the informal sector to move into the formal banking and financial system, which ultimately helps build the base of capital from which the country can draw for development investment.

Above are a few of the examples of the immediate lessons Rwanda can draw to begin developing its savings mobilisation scheme and other long term financial system reforms. Access, security, confidence and competition are lessons that can be applied across sectors, but are vital to the current stage of economic development in Rwanda. Addressing these issues will no doubt produce positive results and will help build the momentum towards the EPRDS and Vision 2020 goals.

[24] FinScope 2008 databook

Chapter 4: Six Pillars to Build Upon

After examining global case studies on savings mobilisation and review the current Rwandan economic data there are six key factors or pillars which are evident. These make up the basis for the Rwandan Savings Mobilisation Strategy and when addressed properly strengthen the financial infrastructure and increase savings and ultimately growth.



1. Macroeconomic Stability

Macroeconomic stability is vital in order to allow other factors flourish; if the *superstructure* is unstable the rest of the system suffers. There need to moderate to medium inflation and nominal interests rates with a positive real interest rate of 2 to 4%+ will be conducive to savings, investment and growth. If there is not a significant positive real rate then the incentive to withhold consumption diminishes.

Legislative Reform in Ghana

The use of legislation and regulation is a key tool in achieving this stability. The examples from Ghana, such as the Long Term Savings Act 2004, which came in a line of bank and financial sector legislation, demonstrate how actions from the government can encourage savings through new policies which open up the market and instil confidence with the public, Ghana saw its growth rate increase from 1.3% in 2000 to a steady 4% in 2006.

2. Institutionalised Savings

Unless institutionalised, savings will note help in investment and hence economic growth. Savings must be instituted throughout both the public and private sector, they cannot be cycled and resource will not and cannot be directed to the growth areas. It is imperative that savings become second nature to government organisations, individuals and institutions alike. If the savings do not exist then the funds for investment and growth do not exist and the system becomes unstable.

Getting through a crisis in Singapore

The stability afforded to a government through institutionalised savings enables it to withstand global and regional downturns and crises; such was the case with Singapore in 1997 during the Asian Financial Crisis. The country's system was strong and inherent savings allowed the country to recover more quickly and almost instantaneously from this regional banking crisis. The country's resilience and its ability to press ahead with liberalisation and financial reforms resulted in a decreased threat from other Asian countries to Singapore's position as Asia's financial centre.

3. Expansion of the Financial Infrastructure and Intermediation

The lack of access to the financial infrastructure hinders savings mobilisation; the FinScope survey showed 86% of adults in Rwanda have *no access* to formal banking products. This equates to 52% of the population being financially excluded.

Access for all in Bangladesh

There are numerous examples from around the world which have shown how increasing access to the financial sector increases savings and quickly. The Grameen bank in Bangladesh is an excellent example, the bank was developed in 1983 and the country saw savings at 17% of GNI and as of 2006 was at a 'very good' rate of just over 30% at 31.6%.

4. Secure and Diversified Means of Savings

A diversified and secured financial sector, increases competition among institutions, provides a larger variety of savings products in which savers at all levels can choose from and take part in, savers must feel that they have choice and security. A competition of products on offer such as insurance, mutual funds, pension funds and other long term savings instruments, provide an attractive vehicle for individual savers with the main role to improve the allocation of savings; thus, heavy regulation and limited portfolio distribution results in comparatively low returns and little flexibility to react to market developments.

Diversifying the market in India

The mid and early 1990's saw India take steps to open its markets and diversify the products available. The top three savings institutions were all government owned. One example of the steps taken was the changes to the Unit Trust of India (UTI), which accounted for 80% of the country's mutual fund holdings. Since then this organisation has been reorganised into a number of separate and competing units and as a results foreign banks launched new funds. After these and other measures taken by the Indian government saw the savings as a percentage of GNI increase from 24.8%, a 'good' level in 1994, to a 'very good' level of 33.7% in 2006.

5. Building Capacity and Efficiency of Intermediation

The strategies for savings mobilisation and the development of the Rwandan financial sector must go beyond policies and include building capacity and efficiency. Increased efficiency allows for operation costs to be reduced which can be passed on through credit costs and can increase the success rate of the fund usage in growth and profitable sectors. Additionally, there must be continued training and education of those directly involved on the institutional side and with the public. Technical assistance needs to be continually sought and utilised to increase the knowledge base of the financial sector and the public to spark innovation and unique solutions to specific circumstances affecting Rwanda.

Building capacity in Ecuador

Such was the case in Ecuador, who worked with the World Council of Credit Unions on a project to increase capacity and access in the country. Started in 1995 the program worked with the country's credit unions by not only providing guidance and structural changes, it also provided technical assistance and training to staff and management of the existing credit unions. In the first four years of the program saw a 7.5% rise in the number of Credit Union members and an increase of 22.2% of loans financed.

6. Increased Awareness and Positive Perception of Tangible Benefit of Savings

The concept in this pillar is simple, if the population is not aware of the opportunities or the benefits the size of the bankable population won't increase. The government and the financial sector must work together to communicate the benefits of savings to individuals and to the country.

Increasing awareness through product offering

Innovative products not only increase awareness, but increase access and positive perception. In Ghana the use of *susu* collectors by most banks, including Barclays, allows for the personal relationship between the market stall owner and their personal banker in the form of a *susu* collector who through increased financing and training from banks increases the direct benefits to the saver. By increasing the services they can provide and their visibility allow for increased awareness and confidence, which leads to a more positive perception.

Chapter 5: Products

In previous chapters, a number of issues important in mobilising the savings have been identified and discussed. It is quite clear that, there is a need to increase the options to the savers whether they are individuals, groups or small to large organisations. This chapter proposes a number of savings instruments and saving schemes from a group of popular banking products or savings instruments which already exist globally in one form or other and have proven to be quite successful in many countries. While recommending them, we have considered the current state of Rwandan banking sector, the complexity of proposed products and the stated as well as latent needs of the population; so that new instruments and products are easy to introduce, will be successful and will be easy to be managed. The basic fixed deposit accounts are already offered by the existing banks in Rwanda but there is a need for wide variety of savings products and competitions among the service providers.

The 'Prize Bond' is a special savings instrument, which is a highly liquid instrument and has proven to be very popular in developing countries. A number of simple banking products i.e. savings accounts have been proposed to meet the varying level of needs of the savers. A number of GOR issued savings certificates have been proposed and these will be managed by a newly proposed National Savings Directorate. The savers will find these savings certificates an alternative and safer way of investment. The financial institutions will be able to use these certificates to create more innovative products. A number of specific instruments and savings products have also been proposed targeting specific groups, such as ***Diasporas, Women, Children*** and ***retirees***. A few products have been proposed for the specific purposes, such as *capital accumulation, leasing, house financing* etc.

Special Savings Instrument

Table 5.1

Product Name	Prize Bond (can also be named as Premium Bond or 'Millionaire Bond')
Product Type	Special Savings Instrument
Benefit/use/justification	Helps public to save in a fun way and the savings is highly liquid.
Design/description	▪ Prize bond is an investment where, instead of interest payment, the investors have the chance of winning ***tax free*** cash prizes every 03 months ▪ The key aspect of the bond is the liquidity and simplicity ▪ These bonds are almost like cash and can be redeemed at any time at any bank/post office. However, to be included in the draw, it must be in the circulation for at least 02 months
Delivery mechanism	Through all the banks. It can be purchased from any bank, no sign needed and bearer can en-cash anytime from any bank. Anyone can buy any amount.
Risks	As these are not registered, these need to be treated as cash (any bearer can go to banks and get cash instead).
Others	▪ At first the denomination can be – RWF 50, 100 & 500 and later these may be extended to 1000, 5000 & 10000 if needed ▪ Each denomination should be issued in 5 different series (for 5 different provinces) with serial number up to a million less one (i.e. 999,999 bonds). If we assume interest rate of 8% annually, then quarterly total prize money can be 2% of total value of the bond. The number of prizes can be of 10000 times of denomination 01 prize, 1000 times of denominations of 02 prizes, 100 times of denomination for 30 prizes and 10 times of denominations for 500 prizes. This means that the first prizes of the RWF 100 denominated Prize bond will be RWF 1,000,000! (Hence a name of 'Millionaire Bond' can be given)

Savings Account Products

Table 5.2 - Monthly Deposit Scheme

Product Name	Monthly Deposit Scheme
Product Type	Regular monthly Savings Scheme
Benefit/use/justification	Helps people with smaller and/or fixed income to build a sizeable deposit amount. Gets people in the habit of saving.
Design/description	▪ Regular monthly deposit starting from RWF 500 ▪ Scheme can be from 1 to 5 year ▪ Profit will be on cumulative interest basis ▪ After first year, depositor can take loan up to 80% of the accumulated value of the scheme at an interest rate of only 2% higher than the deposit rate
Delivery mechanism	All deposit taking institutions.
Risks	For fixed income earners - loss of job.
Others	Whenever possible, the saver should be asked to be paid his salary in the same bank (through a normal current account, so that auto deduction from the account is possible).

Table 5.3 - Capital Build up Deposit Scheme

Product Name	Capital Build-up Deposit Scheme
Product Type	Regular and periodical Savings Schemes to build a sizeable capital
Benefit/use/justification	Helps small farmers, traders, even for coops, trade associations to build a sizeable capital with uneven periodical income base.
Design/description	▪ Instalment deposit, each instalment starting from RWF 1000 ▪ Savers are allowed to give more than one instalment in one month ▪ Savers are allowed to skip instalments but expected to make all the instalments by the end of the year ▪ Scheme can be from 1 to 3 year ▪ Profit will be on cumulative interest basis ▪ After first year, depositor can take loan up to 80% of the accumulated value of the scheme at an interest rate of only 2% higher than the deposit rate
Delivery mechanism	All deposit taking institutions.
Risks	Bad planning by the depositors. If they fail to project and plan their future cash flows.
Others	Whenever possible, the saver should be encouraged to make monthly or quarterly but regular deposits.

Table 5.4 - Monthly Income Scheme

Product Name	Monthly Income Scheme
Product Type	A deposit scheme to generate regular monthly income while safekeeping principal.
Benefit/use/justification	When somebody earns a big amount though sale or divestment of house, business; this scheme helps those one time amount into a predictable and safe monthly income stream.
Design/description	▪ Onetime deposit of a fixed amount, starting from an amount of RWF 100,000 ▪ A monthly interest paid to the saver ▪ Scheme can be from 3, 5 and 7 yrs. Monthly income amount varies with the scheme length. Given these is long term deposit, a higher interest rates expected ▪ After first year, depositor can take loan up to 80% of the deposit value of the scheme at an interest rate of only 2% higher than the deposit rate
Delivery mechanism	All deposit taking institutions.
Risks	Credit worthiness of the banks. There is risk of losing the principal amount in case of insolvency of the bank.
Others	Fixed deposits at maturities should be encouraged to turn into monthly income schemes. There can also be a number of variations of this scheme where a part of the principal may also be paid with the monthly interests.

Table 5.5 - Fixed Deposit Double Scheme

Product Name	Deposit Double Scheme
Product Type	A fixed deposit scheme which is doubled and return to the depositor after ***n*** number of years
Benefit/use/justification	Generally successful in attracting sizeable amount fixed deposits as it clearly spells out in how many years, the initial deposit will be doubled. Less operational hassle for the deposit takers as no interim interest payments.
Design/description	▪ Onetime deposit of a fixed amount, starting from an amount of RWF 100,000 ▪ Given these is a long term deposit, a higher interest rates expected ▪ After first year, depositor can take loan up to 80% of the deposit value of the scheme at an interest rate of only 2% higher than the deposit rate
Delivery mechanism	All deposit taking institutions
Risks	Credit worthiness of the banks. There is risk of losing the principal amount in case of insolvency of the bank
Others	Banks need to properly manage interest rate risk

Long-term Savings Instruments

(Managed by NSD within MINECOFIN; below are bonds that can be issued by the GOR)

- ***National Savings Certificates (NSC)* - 3, 5 & 10yrs (Zero Coupon Bond)**
  - A comparatively higher interest bearing GOR bonds issued for the individuals. Banks or deposit taking institutions can buy on behalf of individuals (or account). The investors (must be more than 16yrs) names must be registered and there should be a ceiling for each individual (e.g. RWF 3-5mn)
  - The bonds can be redeemed after one year but then the investor will earn 2% less (a penalty)
  - Face value (FV) of RWF 100K, RWF 500K & RWF 1000K)
  - The product has simple design. For example, if one wants to buy a 3 year NSC with FV of 100K, he/she pays RWF 75K[25], for a 5 year NSC pays RWF 60K

- ***Inflation linked National Savings Certificate (INSC) – 3, 5 & 10 yrs.***
  - Similar to the above but if the inflation is more than base inflation rate (say 10%), for each 1% inflation point, at maturity 1% of FV should be given to the investor at maturity or while they are redeemed
  - (limit for individuals: RWF 02mn, for MFIs/tontines: RWF 10mn) –denomination RWF 100K, RWF 500K & RWF 1000K)

- ***Quarterly Income Savings Certificate(QISC)***
  - Coupon bearing notes with maturity ranging from 3, 5 and 10 yrs
  - For simplicity, the investor pays the full FV and the certificate comes with attached coupons. Each signed coupon can be presented to bank at scheduled date (first of each quarter) either to en cash or put the coupon amount (to be deposited) in the investor's normal banking account
  - Can not be redeemed before maturity

- ***Diaspora (non-resident) National Development Certificate (DNDC)***
  - USD, EUR denominated 5, 10 yr. certificates with quarterly coupon payments in RWF
  - Aimed at diasporas
  - Similar to QISC but the principal remains in foreign currency (FC)
  - At maturity, the investor has the choice of principal to be paid either in FC (if transferred out of Rwanda) or in RWF (if paid in Rwanda)

Savings Product for Special Groups

(through Banks, permitted non-bank FI/MFI) *(Diaspora products can only be operated by authorized entities and not for MFIs or SACCOS)*

- ***Senior Citizen Savings Scheme (for 55 years or older)***
  - Inflation adjusted monthly income scheme
  - Will help the elderly and retired people to maintain a steady stream of monthly income
  - Inflation adjusted coupon bearing bond with maturities of 3 or 5 years
  - The base monthly interest or coupon amount is adjusted based on previous year's inflation rate
  - If the inflation goes below the base inflation rate, the base coupon rate is still paid. But if it goes up, then for each incremental % inflation rate, the coupon rate for next year goes up accordingly
  - This is for special group and hence the base coupon rate should match QISC

[25] Assumed a flat discount rate of 10%

- ***Women Bonus Saving Scheme (only for women above 30)***
  - Saving scheme specially designed for low income women to get into banking system and save
  - Women will have their own account, where a very minimum opening balance will be required (Say RWF 100)
  - An above average interest rate will be accumulated on a monthly basis
  - At the end of the year, if the average balance is above RWF 2000, then a 5% bonus will be paid by the GOR to the account (up to RWF 10000 only)
  - Similarly Women specific Bonus Fixed Deposit Scheme can be introduced, where, the Government can provide 10% bonus payment into account at 2nd and 5th year
  - After first year, depositor can take loan up to 80% of the accumulated value of the scheme at an interest rate of only 2% higher than the deposit rate

- ***Diaspora Fixed Deposit Bonus Scheme (10% bonus at maturity)***
  - 5 year fixed deposit scheme in USD or EUR
  - Interest will be paid in RWF at the maturity
  - Principal can be paid in RWF with bonus 10% or in FC if repatriated
  - 80% loan facility with an interest rate spread of 4%

- ***Diaspora Monthly Income deposit Scheme***
  - USD, EUR denominated 3, 5 yr. deposit scheme with quarterly payments in RWF
  - Aimed at diasporas and their families
  - At maturity, the investor has the choice of principal to be paid either in FC (if transferred out of Rwanda) or in RWF (if paid in Rwanda)
  - No loan facility against deposit

Family Savings Schemes with Life Insurance

(Sold by designated Banks with high credit worthiness & Insurance companies)

- ***Monthly deposit 5, 10 yr. Endowment plan***
  - Equal Monthly Instalment (EMI) is based on a targeted assured sum
  - If the account holder dies during this time, the full assured amount is paid to nominee or invested in the Inflation adjusted Monthly Income scheme (up to an amount of RWF 5mn)
  - If the account holder survives, he gets the assured sum back with interest (at lower rate) at maturity of the scheme.
    - The lower interest rate is designed so that life insurance premium can be covered through that
    - Loan facility at normal lending rate (to discourage borrowing against this facility) after 2 year. Only up to 25% of accumulated value

- ***Monthly Deposit Higher Education 5, 10yr. Endowment program***
  - For parents with Children younger than 12 yrs but older than 1 year
  - Child specific. For each child, a separate scheme can be opened
  - A revisable ceiling of targeted assured sum (e.g. RWF 1mn, which is readjusted every 2 or 3 years based on expected inflation)
  - If the account holder (the parent/guardian) dies during this time, the full assured amount is paid to nominee through a fixed deposit in nominees’ name
  - If the account holder survives, he gets the assured sum back at maturity of the scheme
  - If the beneficiary child dies, the scheme terminates & the parents/nominee gets the accumulated amount back

- The interest rate may not be lowered (to adjust for life insurance premium) in this case as GOR may decide to subsidise that amount.26
- Loan facility (for child specific need) after 2 year. Only up to 50% of accumulated value

Capital Accumulation Schemes

- ***5 yrs or longer House deposit Scheme***
  (banks, non-bank FIs authorised to finance housing)
  - A scheme designed for adults who all are < 40yrs. EMI calculated based on target amount (15-30% of future intended home price) of required deposit
  - Regular (monthly or quarterly) deposit
  - Inflation adjusted interest rate. The deposit taking institution can make use of GOR issued INSCs.
  - Once, the deposit reach the target – the FI/bank automatically sanction a new housing loan (unless the earning/income has drastically worsened)

- ***Lease Deposit Schemes (can be used by banks, MFIs, Leasing houses)***
  - 1 to 3 yrs capital saving scheme
  - For traders/farmers, small businesses, coop societies
  - At the end, FI/bank lends the equal amount to the trader along with the accumulated deposit only to be invested in farming land, machineries or business (not for any personal consumption) with the purchased assets

Capital Market

- Debt Capital: All the bonds, certificates suggested above are Debt instruments

- Equity Capital
  For Equity Capital Development, a number of steps can be taken
  - Divesting a part or all of shares in all Government owned commercial entities
  - Low dividend tax
  - No capital gain tax
  - Compulsory listing of Banks, Insurance, telecoms, energy companies
  - Tax differentials[27] between listed and non-listed companies.

> Financial Sector Development Secretariat will provide adequate technical assistance to Financial Institutions to further analyse, develop and promote the products (See Chapter 7 for further details on the implementation framework)

[26] Government financial burden
[27] 10% tax differentials for first 5 years (from the date of listing) and then 5% tax differentials after 5 year onwards may be suggested.

Chapter 6: Savings and Credit Cooperatives (SACCOs)

This chapter examines the use of SACCOs and their effectiveness in savings mobilisation and provides clear recommendations for a SACCO Bill (regulation and oversight of SACCOs), a variety of products to attract savers and international best practices.

A roadmap is proposed for the creation of SACCOs at the UMURENGE level.

Objective: ***To have at least one SACCO per UMURENGE by the end of Q1 in January or, alternatively, to have at least one point of financial service per UMURENGE which can be a SACCO counter of an MFI, for example***

When people are just members of MFIs there is a lack of ownership and community by the members and the local authorities, which SACCOs help to develop.

Overcoming challenges

As with every country Rwanda faces its own unique challenges to overcome in relation to the use of SACCOs as an effective tool for mobilising savings. Below are the following challenges to Rwanda:

Table 6.1

Very limited education/sensitisation of the population
Negative mentalities related to SACCOs and to savings in general (SACCOs and MFIs seen as grant providers; poor savings culture; individualism)
Poor governance and limited Human Resource capacity
Scattered habitat
Lack of adequate infrastructure Energy, roads, offices, equipment…
Little ownership by local government
Perception of heavy and numerous taxes notification fees, mortgage registration fees, etc…
High inflation rate

Tarnished image of MFIs and SACCOs
Little effort by local government, police, and legal authorities to prosecute bad clients of SACCOs and MFIs
Long procedures regarding recovery and inappropriateness of ABUNZI jurisdiction
Little information on bad clients of SACCOs and MFIs

However, in reviewing these challenges, faced by Rwanda and the use of SACCOs, in the context of implementing a successful SACCO Model through international best practices, expanded products and regulation it becomes clear that once policies are implemented the challenges are easily overcome.

Recommendations

This section outlines the specific model, legislation, products and incentives which should be implemented for SACCOs to succeed in Rwanda.

The SACCO Model

Despite the challenges faced by SACCOs they can be an effective tool if governed, regulated and held to best practices. There are a variety of SACCO models throughout the world, outlined is the proposed SACCO model developed inline with international best practices and standards.

The basic standards which should be applied are the following:[28]

- Standardised accounting reporting
- External audit
- Capital Adequacy (capital reserves/assets)
- Fully funded provisions for loan losses
  - Loan Loss provisions
- Liquidity standards
  - Liquidity reserves
- Limits on non earning assets
- Internal controls
  - Borrowing/leverage limits
  - Loan concentration limits
- Policies: credit, collections, savings
- Bylaws

Below are the World Council of Credit Unions (WOCCU) international standards for financial performance monitoring, which are recommended to be adopted for monitoring and managing SACCOs.

Table 6.2 – PEARLS International Standards (WOCCU)

PEARLS International Standards (WOCCU)[29] (**P**rotection, **E**ffective financial structure, **A**sset quality, **R**ates of return and costs, **L**iquidity and **S**igns of growth)	
Indicator	Standard
Provisions/Delinquency >12 months	100%
Provisions/Delinquency <12 months	35%
Delinquency/Total Loans	5%
Capital Reserves/Total assets	10%
Non-earning Assets/Assets	5%
Administrative Expenses/Assets	5%
Liquidity Reserves/Deposits	15%

[28] *Regulation Supervision Best Practice,* WOCCU, Kampala, April 25, 2005
[29] *Regulation Supervision Best Practice,* WOCCU, Kampala, April 25, 2005 and *Working with Savings & Credit Cooperatives*, CGAP; Brian Branch, WOCCU, August 2005

Registration/Licensing

The licensing of SACCOs is an instant way in creating confidence and should be done by the government to ensure best practices. Any SACCO found operating without a license would be subject to a fine or the board or management involved will be subject to imprisonment or subject to both.

In order to apply for a licence the SACCO must prove they have implemented the following:

- By-laws
  - Structure of the organisation
    - General Assembly
    - Board of Directors
      - Responsibilities, terms, re-election
    - Supervisory Committee or Internal Auditor
    - Management
      - Operational responsibilities
  - Criteria for election of Board of Directors
  - Rules and sanctions to control conflict of interest
    - Criteria for granting insider loans
    - Reporting and inspections of insider loans
    - Delinquency disqualifies director
    - Declare and abstain regarding business and investments
  - Requirements and scope of world of external audits
- Board of Directors in accordance with by-laws
- International Best Practices (adoption of the WOCCU PEARLS standards)
- Financial Risk Analysis within its economic and financial environment

If a SACCO is denied a license it will have the right to appeal to the Minister of Finance within 21 days in writing.

Legislation to Improve Governance

Confidence can also be strengthened through policies to improve the governance of SACCOs. At present SACCOs are governed under two authorities 1. The Central Bank and 2. Newly Created Cooperative Agency. It is important two streamline the procedures and requirements that SACCOs have to fulfil under these two bodies and harmonise the reporting system. The Cooperative Agency should take the lead to ensure this as soon as possible.

It is proposed that policies should be created and a SACCOs Bill should be passed through Parliament in order to increase the security of SACCOs by implementing uniform regulations and demonstrates the GoR commitment to access to savings for all members of society and specifically their support of SACCOs.

Cooperative Agency

The Cooperative Agency should be the main *Regulatory Authority for SACCOs*, which will be responsible for the oversight and licensing of SACCOs.

The key objectives and functions of the *Cooperative Agency regarding SACCOs should be:*

1. Licensing of SACCOs to carry out deposit-taking business (in accordance with the Act)
2. Regulate and supervise licensed SACCOs
3. Levy any contributions
4. Any other duties as appointed by the Minister of Finance
5. Annual reporting on the performance of the Authority and SACCOs in the country to the MINECOFIN and BNR

A Board of Trustees is recommended to be established to oversee the work of the Cooperative Agency. The Board will consist of members both appointed by the Minister of Finance, from the National Bank of Rwanda (BNR), from the Finance Ministry, 3-4 non-public official members appointed by the Minister of Finance and the Chief Executive Officer of the Agency.

The Authority will have the right to raise levies on deposits taken by SACCOS and also apply levies to non-deposit taking SACCOs. Since the goal is to increase saving, higher levies on non-deposit taking SACCOs are recommended to encourage higher deposit rates. Any levy raised should be at a low rate, again to encourage the use of SACCOs and to aid in keeping their cost low to the membership. All levies collected shall go into the General Fund related to SACCOs.

Regulation/Governance

A license can be revoked if a SACCO does not adhere on average to the mandated standards and its own internal controls as determined by its membership.

Regulatory requirements to maintain a license:

- Initial fee for license (will be applied for the first two years of the SACCO)
- After two years a nominal annual fee will be required to maintain the license
- External audit, every two years, to be filed and reviewed by the Authority
- All members of a SACCOs Board of Directors shall be required to open their personal accounts to review during the audit process to ensure no misuse of funds

The Cooperative Agency will prescribe the number of years for which an external auditor may serve the same licensed organisation and the Agency from time to time call for an inspection of an individual or and organisations books.

The Agency should also outline in which business activities SACCOs may engage. Some possible options are foreign trade operations; investing in enterprise capital; wholesale or retail trade (different from forced savings from the sale of goods such as agriculture); issuing of third party cheques.

Deposit Guarantee Fund

The Agency should conduct a feasibility study to establish a Deposit Guarantee Fund, which will provide protection for members' deposits, but not shares, up to an amount of RWF 800,000 per member. The Fund will be managed by the Cooperative Agency.

The Deposit Guarantee Fund will consist of:

1. Monies contributed to the Deposit Guarantee Fund by licensed SACCOs (a small annual amount shall be paid into the fund)
2. Income investment interest accruing to the Deposit Guarantee Fund
3. Moneys borrowed for the purposes of the Deposit Guarantee Fund

Government support through such reform shows commitment and provides a sense of security to depositors, which can translate to other parts of the formal financial sector.

National Microfinance Policy Implementation Strategy

A number of recommendations that were given in National Microfinance Policy Implementation Strategy are also valid for overcoming some of the barriers that SACCOs face.

The following recommendations should be top priorities for forming and promoting SACCOs:

Table 6.3

Forming a Strategic Alliance	1. **Increased Capacity –** SACCOs should be encouraged to establish strategic alliances with MFIs. The essence of such alliances will be the fact that large clients who require amounts of credit beyond the capacity of the SACCOs to service will be referred to MFI partner. This will be done through introductions and by providing detailed credit history reports regarding the client. Doing so will provide an opportunity for a client to "graduate" to a traditional financial institution, while at the same time potential clients of MFIs with lower credit requirements are referred to the SACCO partner. 2. **Easy Access –** SACCOs can deposit their own funds with their MFI partner in return for easy access to a line of credit. 3. **Financial Sustainability –** A co-branding alliance mechanism can be applied in order to strengthen these strategic alliances. This is particularly valuable in the value chain market. SACCOs and MFIs can come to a negotiation/agreement whereby MFIs would provide credit to medium scale middlemen, input suppliers and processors and the SACCOs would provide credit to farmers in the same value chain. This would ensure that small farmers who are mainly clients of SACCOs have necessary credit to buy inputs and players at the more upper stream of the value chain i.e. processors have timely access to raw produce. Strategic alliances of this sort will ensure that both MFIs and SACCOs participate in the same value chain in a planned, interlinked and systematic way. Doing so will contribute to the financial sustainability of both SACCOs and MFIs.

	4. **Increased Awareness –** It is also recommended that BNR, MINICOM, and MINECOFIN work together in order to raise MFIs awareness of the commercial viability of lending to SACCOs and forming such strategic alliances.
Topping Up Microfinance Capacity Building Fund (MCBF)	1. **Funds –** Since SACCOs also face capacity constraints, it is recommended to top up the existing microfinance capacity building fund to assist SACCOs with access to technical assistance that can be used to enhance their capacity. The top up portion will be exclusively for SACCOs Institutional Development (ID) programme. This programme will rely on conventional trainings and on the job trainings for SACCOs. The government will contribute to this fund, while donors provide matching grants. 2. **Outreach –** Marketing, outreach, public information; design and operation of fund application and assessment procedures, arranging of technical assistance and outreach to assist emerging and weak SACCOs to submit applications, assessing applications against set criteria, monitoring of grantees, proposing rules and procedures for approval by the board-including keeping accurate records of disbursements and financial reporting shall all be the responsibility of the fund management unit of AMIR (the unit should have at least one representative member from the Cooperative Task Force of MINICOM. 3. **Training –** All trainings under the fund should be provided on a cost-sharing basis. Subsidy levels will vary according to the size and growth level of the SACCOs in question. Funds will be approved for disbursement to SACCOs depending on conformity with pre-set eligibility criteria. 4. **Priority –** Priorities should be given to newly formed SACCOs.
SACCO/MFI Commercial Banking Accounts	Utilising MFIs as strategic partners will increase the capacity of SACCOs and will provide increase confidence through the backing of more than one institution. The same can be provided through strategic alliances with banks. SACCOs and MFIs can be utilised as a means of pooling micro savings into the formal banking sector by the organisations maintaining formal banking accounts in banks, thus increasing the national savings pool. Special bank accounts should be developed for SACCO/MFIs. Availability of banking facilities may also encourage the non-compatible personalities to different avenues of savings. Knowing that all the savings are maintained in a formal bank may also instil a greater confidence among the depositors.
Utilisation of SACCOs to sell Agricultural Products	We recommend that the sale of agricultural products be passed through SACCOs to ensure farmers are receiving the best price for their goods and to ensure they have better access to credit and other financial products. By working together members of an agricultural SACCO have better bargaining power than they would if they operated as individuals, by doing so they can increase their ability negotiating position for financial services.

Promotion through products

In addition to strong government support SACCOs should be encouraged to offer a wider variety of products and services to their members other than just simple deposits and credit to encourage higher savings rates.

Implementing new products can give new life to SACCOs and renewed interest from the public and their members.

Pilot testing products is vitally important in order to ensure they are geared towards the target market and meeting their needs. Below are some recommended products to pilot test in Rwanda.

Products to be pilot tested[30]:

Table 6.4

Schemes	Features
Save and Get a Chance	Often referred to prize or premium bonds, the *Save and Get a Chance* product offers interest-free deposits, with no withdrawals within a certain period of time; these cheap and stable funds that can be used for interest bearing investments. Regular savers are automatically entered in bank, organisational or government drawings to win desirable prizes. All branch banks, MFIs and SACCOs regularly, possible quarterly, organise parties with food and drink during which the drawing is made and prizes are given out. The branch also takes advantage of the client gatherings to let people know about savings continuity and other services. Regular savers feel they have had an incentive to save because their savings made them eligible for a chance in the prize drawings a reward and new savers are drawn in because they want to participate in the drawings and the parties.
Passbooks	Designed to cater for small depositors, most popular product in the savings banks community, allows very low minimum balance for opening and maintaining accounts, high administrative costs.
Long-term Saving for Old Age, Education, Housing and Religious Ceremonies	Encourage long-term savings through products for old age, children's education, housing and religious ceremonies (or specific major life events such as weddings and funerals). These products have an interest rate that is higher than a passbook account and lower than a time deposit. They require monthly deposits, have a lower minimum balance than time deposits and have a floating interest rate.
Youth and school savings plan	Aims to inculcate the habit of thrift and saving among school children, attract parents to become clients, allow small minimum balances for and maintaining accounts. School children are encouraged to save and some prizes (scholarships, educational materials,) are awarded to children/schools for their participation/cooperation.
Save-as-you-earn	Savings accumulation for specific goals and targets, restrictions on withdrawals imply low transaction costs, predictable and stable liquidity flows costs, higher return compared to the interest rate on passbook.
Use of Deposit Collectors	Deposit collector work because it is a daily reminder and pressure to save. There is almost a moral imperative to deposit with a deposit collector, since he or she is there to collect the money on the individual's behalf. Hence, signing up with a deposit collector program is indeed making a commitment, albeit nonbinding, to save in the future. Deposit collectors can also be trained by the institutions they work for to offer other services and products to their clients. They can aid and inform members of new savings schemes and other lines of credit, when required, and can keep them informed of the SACCOs training and education programs.

[30] *The Provision of Microfinance Services by Savings Banks - Selected experiences from Africa, Asia and Latin America*; World Savings Bank Institute. October 2004

Savings Card Deposits for Agricultural Products	A savings card is a type of deposit that is payable at sight upon request. A member may purchase as many cards as they choose, each at the price of 250 Rwf. The cards mature after three years, at which time the member may withdraw their savings and the interest earned. Savings cards can act as a deadline for bonuses, where members have a chance to win prizes once every three months (12 times during the life of the card). Awards are based on two draws from the last three digits of the card's serial number. So, the more cards, the higher the chances of winning; this is a proven way to incentivise saving and to encourage it for a longer period of time.
Incentivised Loans	Savings in a SACCO would not be required to apply for a SACCO loan, however members of a SACCO who have savings would qualify for lower interest rate loans. Loans granted for SACCO related activities also would qualify for a lower interest rate.

Obligation to Membership

The main obligation to the membership is education and training, education is the key to success. Due to the nature of democracy within SACCOs, it is important to have an informed membership; an uninformed membership the International Cooperative Alliance (ICA) says is the greatest threat to any SACCO.

The ICA stresses that cooperatives and SACCOs in return, should provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. The education of SACCO members is an absolute must for maintaining democracy, member control and transparency with in the SACCO. Once a SACCO is badly managed to benefit a limited few, it is very difficult to bring the institution back to the fundamentals; this is where greater regulation has a role.[31]

Tax incentives

Tax incentives can be an effective tool to encourage savings of individuals, the formation of SACCOs and the cooperation of banks.

Recommended tax incentives:

Table 6.5

Institution	Incentive
Individual	Interest on loans for SACCO related activities should be made a 100% deduction
Individual	Income generated from interest on savings would not be taxable
SACCO	Income generated by the SACCO would be subject to a corporate tax rate 50% below the lowest rate
Banks	Reduction in the corporate tax rate for banks holding SACCO funds
Banks	Tax deduction of 25% of loan value made to start-up SACCOs
Banks	Guarantee of 100% write off for defaulted loans made to SACCOs

[31] *Strengths and Weaknesses of SACCO models used in East Africa,* USAID/Rural Speed

Further Studies

The potential of SACCOs extends far beyond its uses for savings. Further studies should be conducted to develop a comprehensive SACCO strategy. The strategy should include provisions for each target sector in the 2020 Vision and 2012 goals.

Creating customised strategies for different SACCOs encourages innovation in the product offering of SACCOs and can lead to greater economic empowerment and financial freedom of individuals and SACCO members.

Keys to success

There are six main keys to the success of the SACCO program. All elements must be in place for the outlined initiatives to work

Security: Clients need to perceive SACCOs to be safe
Low minimum balance: SACCOs must be accessible with a low minimum amount required to open and maintain an account
Liquidity: Clients need to know they can access their money at any time, as long as they maintain their minimum balance
Regulating/Governing Body: Shows government support and commitment, increases confidence
Tailored Products: Must be designed to match customer needs using thorough market research
Public Education: A sustained public campaign on SACCOs and their advantages must be conducted to educate the population on savings
Staff Training: Well trained staff is a necessity and can be facilitated through the governing body

In framing policy recommendations, it is evident that successful savings mobilisation requires a conducive macroeconomic environment. Where political turmoil, high inflation and uncertainty about the future prevail, savers will try to accumulate real assets rather than deposit their money in savings accounts. Subsidised credit schemes and interest ceilings turn savings mobilisation into unprofitable business and cause financial institutions to refrain from providing large-scale deposit services.

By the same token, policy makers must ensure an effective regulatory framework that entails adequate protection of savings and provides incentives for sound management, while permitting a diversity of institutional models, institutional development paths and financial innovation. Regulatory and supervisory bodies face the challenge of striking a balance between these two objectives. They should follow a cautious, tiered approach in regulation in response to the scale, level of efficiency and experience of deposit-taking SACCOs and MFIs.

Chapter 7: Implementation and Monitoring and Evaluation Mechanism

The implementation mechanism has been designed with the various ground realities in mind (including findings of the recently conducted FINSCOPE study) as well the issues that we have discussed in previous chapters. The objective is to create a stable financial intermediation infrastructure, where the 'accessibility' of the banking channels and products are increased and a proper regulatory and institutional framework is in place. The key is to incentivise the population to save as they will have easier access to banking, to various saving products and wider financial choices.

In this chapter, we will discuss the key issues which need to be addressed and finally outline implementation steps.

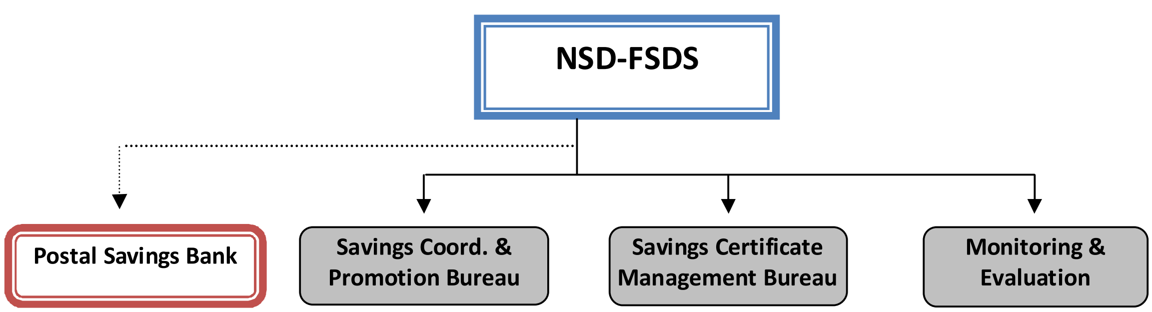
Institutional Framework

It would be very important to have a dedicated organisation that will be the driving force to mobilise the savings in the country. It is clear that, there is a need to increase:

- the public access to the banking
- competition among the service providers
- innovative savings products and instruments
- capacity of existing market players
- awareness of the population

We would like to propose Financial Sector Development Secretariat under MINECOFIN to organise and coordinate the various recommendations through creation of a new department-National Savings Directorate.

Figure 7.1 – Financial Sector Development Secretariat (FSDS)



As for Institutional framework, two new organisations are proposed:

- NSD will be the main organisational unit to mobilise savings in the country.
- NSD will establish a special banking unit as a JV with postal department to increase the access and competition.
- The other suggested units of the NSD to executive the strategy can be:
    - *Savings Coordination & promotion* Bureau – will help the other banks & FIs to introduce more and better savings products and will also manage any incentives that the GOR may decide to provide to the savers.

- *Savings Certificate management Bureau* – to manage the issuance, distribution and management of all the national Savings Certificates.
- *Monitoring & Evaluation Team* – is essential to monitor the progress but also to help the financial market to incorporate the innovative products, process & technologies in the subsequent years.

NSD will have the full responsibility of capacity building, pilot programme planning and implementation and overall continued responsibility of facilitating and further developing the saving mobilisation strategy. Some of the Key tasks of NSD related to savings are listed below:

- Issue and management of Prize Bonds (including lotteries every quarter and prizes).
- Issue and management (include record keeping) of all Savings certificates. Will coordinate with BNR.
- Manage distribution of Prize bonds and other saving certificates through all BNR approved banks, non-bank FIs.
- Help the deposit taking institutions to develop innovative products for the consumers with the help of experts.
- Manage all the GOR subsidies that may be provided to the special accounts and schemes. Also will ensure that these subsidies are not abused through fraudulent claims.
- Will invest all the money collected through Prize Bond & Saving Certificates.
- Mass marketing and awareness building.
- Monitor the performance of Postal Savings Bank (PSB[32]).
- Co-ordinate and liaison with National Microfinance Consultative Committee, proposed Micro-insurance sub-committee and Micro-insurance Development Cell (MIDC) (see National Rural Insurance Strategy)

Diasporas-Information Needs

The role of the Diasporas as a source for mobilising savings and potentially increasing economic growth is very important. Relevant government agencies, therefore need to pay special attention to this diversified group including:

1. Gather existing data on Diasporas: size, geographical distribution, gender, age, education, skills, occupational and residence status, contributions to trade, FDI and remittances flows, belonging to networks, groups, organisations and associations with a development objective;
2. Improve quantitative and qualitative knowledge on Diasporas through population census and registration abroad, questionnaires, surveys, exchange of data between host and home countries, analysis of exit and entrance flows;
3. Facilitate measures targeting Diaspora contributions with the provision of services for diasporas: access to credits and micro-credits, business registration services, remittance transfer services at low rates, etc;
4. Promote and advertise the simplification of bureaucratic procedures as an incentive to attract and channel resources from the Diaspora;
5. Define, where appropriate, special schemes for diasporas offering financial advantages, fiscal incentives and tax breaks;
6. Identify the obstacles that diasporas perceive as barriers to their contributions: banking infrastructure, bureaucratic burdens, weak partnerships, unclear interlocutors at governmental level, poor consular; One Window Service: one window set up should be created to provide advisory services to the Diaspora.

[32] Any other suitable name may be used.

Establishment of Postal Savings Bank

This is very important. It is quite clear that the existing numbers of banking branches are not adequate to serve the majority of the population. Globally as well as in Africa, the concept of co-locating a banking establishment with the post office has proved to be very effective. As mentioned before, there are many different ways to create the Postal Savings bank and therefore it is suggested a detail study or project is undertaken so that a proper business plan can be created. Although the details may differ but following key issues certainly needs to be considered:

- Should be created as a commercial joint venture between FSDS & Postal Service (or the Ministry under which the Postal service operates) and the profits are equally shared.
- PSB may be a special banking operation but must be a fully licensed one and supervised by BNR and properly audited.
- The bank branches may be co-located with the post offices but should be legally separate units.
- There should be an agreement and a strategic plan as for the number of branches/post offices to be created over next 2, 5 and 10 years.
- The banking units must make use of technologies to lower cost and increase access, such as:
    - Most of the banking should be digitised (e.g. opening of bank account, transactions, use of photo bank card with finger print technology for illiterates etc.)
    - All banking branches must make extensive use of ATM machines to withdraw and deposit money. These ATM machines should be part of the newly designed National payment system.
    - These banking units must work as the key points where remittance can be received by the end-users.

- Initially, the credit providing facilities will be very limited (i.e. only against a cash deposit)
- PSB will enhance the banked population through offering of different savings instruments, money transfer & payment facilities, saving accounts at a low cost & through use of modern technologies. Proximity with other postal services will help to create awareness within population easily.
- All PSB branches will be part of nationwide Payment system. PSBs may allow opening bank accounts with RWF 100 only to receive remittance from abroad.
- The PSB branches can also be used for distribution of pensions and for collection of premiums/contributions for the newly introduced Social Security Fund.
- AT PSB branches, whenever a client opens an account, he/she can actually have 03 accounts:
    - A current account,
    - A savings account, and
    - A social security account (a portable account)

Regulatory Framework and Government support

It will be very important to have proper regulatory framework ensuring the smooth operation of the various public, semi-public and private entities, which will be part of these savings mobilisation infrastructures. A transparent system will help the different entities to understand their respective roles and be complementary to each other. The privately owned banks and other deposit taking Financial Institutions must be adequately controlled to ensure the safety of the deposit.

Following regulatory steps may be taken to strengthen the confidence in the financial system:

Deposit Insurance Scheme

All the deposit taking institutions must be the member of a Deposit Insurance Scheme. Under the supervision of BNR, this scheme should be run and must cover up to a certain amount for each deposit account.

Regulations controlling Financial Institutions

The recent global events have clearly demonstrated that the banks and financial institutions may need to be treated differently from other industries. The acts and regulations covering these institutions should include the following:

- Strict provision of 'audit' in each and every year. Encouragement should be given to publish semi-annual financial reports.
- For banks, BNR should introduce risk management framework in line with BASEL II recommendations.
- Minimum capital adequacy ratios must be maintained and monitored all the time.
- It must be made clear that 'depositors' have precedence over any claim from 'creditors' and claim of the 'owner's/stock holders should be the last.

Direct Government Matching Contribution

It may be useful to introduce direct support to induce medium and long term savings. GOR can decide about an amount which it may be willing to provide to an economically active individual to help him/her to build a long term savings pot. The recent imitative by SSFP to introduce PFP (provident Fund Pillar) covers primarily the salaried workers.

The contribution should be equally applicable for all the individuals. As a guideline, GOR may contribute 10% of all the Employee contribution to PFP with a lifetime maximum Cap (of RWF 100,000 as an example) for each individual at year end. The Government contribution cannot be withdrawn but up to 80% of which may be borrowed for the purposes which are allowed under the respective schemes.

Similar to contribution to PFP for salaried workers, non-salaried workers can also open their individual social security account (which will essentially be long-term deposit account). Each social security account (SSA) should be associated with unique lifetime individual Social Security number (SSN). The SSA should be portable from bank to bank if that's what the account holders wish.

Besides government matching contribution to SSAs, the Government should also actively consider in providing other matching or top up schemes as have been proposed with different products which are aimed for specific segments of the population (such as women, children etc).

NSD can manage all the matching contributions and where required coordinates with deposit taking institutions and SSFR. PSB can play a vital role.

Capacity Building

To facilitate sustainable development of viable savings products, it is essential that the technical expertise, organisational capacities of individual, target population, distribution channels, MFIs, commercial banks, SACCOs, insurance companies, Government agencies, regulators and other stakeholders are enhanced. Therefore it is suggested that, *a detail plan on capacity building activities must be laid out.* The capacity building plan must consist of specific action plans on all the capacity building needs including the following:

- Increased awareness and understanding of savings by the target population
- Understanding of benefits of savings by the cooperatives in the rural areas
- Knowledge & expertise of commercial banks, MFIs, SACCOs, insurance companies, capital market on developing saving products
- Capacity of distribution channels and intermediaries
- Capacity of support infrastructures, public & private organisations and service providers
  - Capacity of deposit taking institutions to offer more choices at lower cost.
  - Capacity development of FSDS to coordinate and help to introduce all new products
  - As a whole, the capacity of using modern technology needs to be improved in following areas:
    - Account opening/maintenance
    - Payment/transfer system
    - Reduce overall operational cost
    - Increases productivity of the employees

- Capacity of regulators to strictly monitor the deposit taking institutions.

Implementation Plan

***Target: Mobilising additional 106 bn RwF in 2009*, growing at the same rate as GDP for next**

Four major vehicles policy through which the savings mobilisation strategy would be driven are:

a. Innovative products that will be further developed and promoted by NSD in co-ordination with FIs.

b.

- **Provident Fund with Rwanda Social Security Board**
  - Mobilization potential: **50bn**, with a contribution rate of 20% gross salary
    - (10% by the employee; 10% by Government through PAYE substitution)
- **Policy actions required:**
  - To enact the laws governing RSSB and organizing the Provident Fund (P.F)
  - To make the P.F operational
  - To make a substitution of 10 % PAYE to be allocated to the P.F as a Government matching contribution
    - (in the long run Government contribution recovered through taxes generated by investment financed by those savings mobilised)

c.

- **Collective Investment Schemes (CIS)**
  - Mutual Funds, Unit trusts and other CIS will raise directly savings from the public, and will be a major intermediary between the savings vehicles (SACCOs, Social Security Funds) and the investors, through capital market operations
  - Target: 10bn to 20 bn per year
- Policy actions required
  - To enact the law governing CIS
  - To organize proper regulations with BNR regarding especially:
    - capital and solvency requirements
    - investment rules
    - Accounting
    - auditing
    - disclosure standards and obligations

d.

- **SACCOS**
  - Saccos in rural areas will be used to mobilize at least 5% to 10% of rural production, i.e 30bn to 60bn.
- **Policy actions required**
  - To finalize the SACCOs strategy and define all key actions to be implemented
  - To change the cooperative law in order
    - (i) to allow cooperatives to be member of SACCOs with same membership composition;
    - (ii) to review district taxes with negative impact on SACCOs development to grassroots level : patente; notification fees; mortgage registration fees (discussion on this is underway)
  - To organize a broad national education campaign.

A guideline is provided below around which a detailed implementation plan needs to be created.

- MINECOFIN helps to establish National Savings Directorate (NSD) through promulgation of Special Savings Act.
- NSD simultaneously starts working on following areas:
  - Create a Postal Savings Bank as a JV and monitoring mechanism of the activities of PSB
  - Create a plan and a management team to manage the issuance of different Savings certificates and prize bonds.
  - Discuss and coordinate with other banks, deposit taking Financial Institutions to formulate an action plan so that the new innovative savings products are introduced by them.
- NSD coordinates with BNR to strengthen the rights of the 'depositors' and the regulatory framework to supervise efficiency and viability of the deposit taking institutions.
- Carry out annual survey of both service providers and receivers and design innovative strategies products and where necessary coordinates and facilitates new innovation. Provide regular feedback to MINECOFIN & other policy makers.

Baseline information is missing in some cases; therefore, NSD will immediately have to begin work with the BNR and MINECOFIN to collect such a baseline. Doing so must be a top priority.

The global indicators mentioned above will be illuminated with quantitative data drawn from surveys and censuses conducted by BNR and the data systems of MINECOFIN. Qualitative information about impact of microfinance on poverty will be obtained through traditional and participatory means. The savings monitoring system must be fully integrated with EDPRS monitoring strategy (i.e. some indicators can be considered for Policy and Result Matrix of EDPRS); doing so increases efficiency and reduces costs. Ensuring this integration is the responsibility of MINECOFIN.

NSD will control, and coordinate, quality control procedures for information collected by various agencies.

Table 7.1: Indicators to Measure Success of Savings Mobilisation (for global indicators, see table 2.2)

	2008/9	2009/10	2010/11	2011/12	2012/13
Expansion of the Financial Sector					
Number of SACCOs/MFIs					
Number of Commercial Banks					
Branch network					
Number of saving products					
Lending Activities					
Volume of loan outstanding					
Number of loan outstanding					
Average loan size					
Avg. loan as proportion of GNP per capita					
Deposits					
Volume of demand deposits outstanding					
Number of demand deposit accounts					
Average demand deposit size					
Avg. demand deposit as proportion of GNP per capita					
Volume of time deposits outstanding					
Number of time deposit accounts					
Average time deposit size					
Avg. time deposit as proportion of GNP per capita					
Financial Intermediation					
Deposits to loan ratio					
Deposits to liabilities ratio					
N.B: Savings and investments in % GDP					

Overall M&E mechanisms will include:

1. National Savings Directorate reporting to Executive Secretary of FSDS: organised on a quarterly basis, these meetings will be convened by the Executive Secretary of FSDS. Their purpose will be first to review progress against outputs, also to approve new initiatives, assess achievements, identify problem areas and deal with problems as they arise.
2. An immediate need is for the FSDS to create a central database system (based on the above global indicators). Information related to savings from a wide range of actors should be directed into this database, the ultimate goal of which is to monitor national progress as compared with the action plan. The database will play a critical part in collecting, storing, and providing access to accurate and updated savings information. It will inform quarterly reports and annual reviews.
3. Quarterly progress reports / Semi-annual Summary Reports: based on outputs, these reports will be produced on a quarterly basis by the FSDS. They will be submitted to the Minister of Finance and Economic Planning. Quarterly reports will in turn provide the building blocks for semi-annual summary reports. The purpose of progress reports is to identify both problems and successes, as well as to describe challenges, achievements, and how resources are being used.
4. Annual reviews: drawing on the content of annual work plans, independent annual reviews will be undertaken to gauge both progress and achievement of goals. These annual reviews will inform saving mobilised by comparing actual performance with stated objectives. Annual review reports should be distributed to all stakeholders.

Action Plan

Major action plans that should be taken to implement the overall strategy are given in appendix I. The items under the plan are grouped into three phases and a possible timeline associated with the action items are also highlighted. The plan outlines priority levels (High/Medium/Low) and resources needed to undertake each aspect of the plan. FSDS, overall, will primarily be responsible for implementing identified activities. In order to carry out the action plan, government will seek donor support particularly in the following key areas:

- Support the government in providing market education at the potential or actual policyholder level ("client level");
- Support private and public retail providers offering innovative savings products on a financially viable basis which at the same time is appropriate for low-income persons with training and technical assistance ("micro level");
- Support institutions, such as networks and associations, information with training and technical assistance to promoting transparency, fostering knowledge management and consumer recourse development ("meso level");
- Support regulators, supervisors as well as policymakers ("macro level") creating an enabling environment through financial support or through providing experiences from other countries.

Chapter 8: Conclusion

This document is built on the vision of EDPRS and is consistent with overall Micro Finance Strategy, National Rural Insurance Strategy and overall Financial Sector Development Plan. It may be emphasised that the steps suggested here are no way prescriptive rather to be a pathway and a facilitating thought agents to achieve the goal of mobilising savings in Rwanda.

Starting from theoretical analysis, we have looked into the current economic plans and ground realities. These have helped us to identify the key SIX Pillars and to propose specific products, plan and implementation mechanisms. The specific action Items may change as further deliberations will take place in future but care must be taken that we do not lose sight of our goal.

It is very important to understand and remember that the population must be given encouragement through maintenance of macroeconomic stability and increasing access to the innovative financial products which can cater for their known and latent needs; so that they can realize that, it is in their interest to save! At the same time, financial intermediaries and service providers can be given incentives so that they understand that, helping people save can help them to make money and prosper. But most importantly, the Government must ensure that the national savings can be funnelled appropriately, so that the investments are made in most productive sectors. Savings directed and invested in productive sectors help to grow economy, which in turn helps to increase savings and then investment, i.e. being in a 'virtuous cycle of savings-investment-growth-savings'.

Annex I: MASTER ACTION PLAN (2009-2013)

Action Plan/ Responsibility	YEAR 1 QTR				YESR 2 QTR				YEAR 3 QTR				YEAR 4 QTR				YEAR 5 QTR				Priority	Budget
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	H/L/M	RWF
COORDINATION AND AWARENESS																						
▪ Hold a day long coordination workshop with all stakeholders presenting the strategy / **FSDS**	x																				H	600,000
▪ Hold an awareness workshop on benefits of savings/**FSDS**	x																				H	600,000
▪ Arrange follow up meetings with commercial banks, MFIs, SACCOs, Insurance Companies/ **FSDS**		x			x				x				X				x				H	200,000
▪ Develop country wide awareness program/ **FSDS, MINICOM, MINALOC**	x				x				x												H	2000000
▪ Refinement and finalisation of the Savings Mobilisation Strategy/ **/ FSDS**	x	x																			M	1,000,000
▪ Develop and implement savings education program in the rural areas/ **FSDS**		x			x				x												H	2000000
▪ **ESTABLISHING AN IMPLEMENTATION MECHANISM**																						
▪ Establish a Unit for Savings Mobilisation/ **FSDS**	x	x																			H	8000000
▪ Create Savings Coordination & promotion Bureau/ **FSDS**		x	x																		H	600, 000
▪ Create Savings Certificate management Bureau/ **FSDS**				x	x																H	600, 000
▪ Create M&E Team/ **FSDS**			x	x																	H	600, 000
▪ **SAVINGS PRODUCTS**																						
▪ Savings product specific regulations developed/ **FSDS and BNR**			x																		H	NA
▪ Discuss and coordinate with other banks, deposit taking Financial Institutions to formulate an action plan so that the new innovative savings products are introduced by them/ **FSDS and BNR**			x	x	x			x	x												H	500,000
▪ Conduct pilots on recommended savings products/ **FSDS**				x	x	x	x	x	x	x	x										H	8000000
▪ Conduct assessment on effectiveness of pilot tested products/ **FSDS**													x	x							H	2,000,000

▪ Promote and roll out successful products/ **FSDS**													x	x	x	x	x	x	x	**H**	**500,000**
POSTAL BANKS																						
▪ Establish commercial joint venture between **FSDS** and Postal Services to establish postal bank/ **FSDS**					x	x															**H**	**10000000**
▪ Develop a strategic plan for postal banks/ **FSDS**					x	x	x														**H**	**600, 000**
DEPOSIT INSURANCE SCHEME																						
▪ Conduct a feasibility study to create a deposit insurance scheme/**Cooperative Agency**			x																		**H**	**500,000**
▪ Establish a deposit insurance scheme including for SACCOs/ **Cooperative Agency**				x	x																**H**	**500,000**
SOCIAL SECURITY AND PENSION																						
▪ Encourage Use of associations (i.e. SACCOs) based on occupation or professions, social networks and institutions either to enforce mandatory, or encourage voluntary, participation in National Social Security		x	x																		**See relevant Social Security Fund Policy and Pension Policy**	
▪ Increase contributions (or otherwise increasing NSSF financing) to allow for and support larger benefit levels, or at a minimum, provide resources for automatic inflation-based adjustments.			x	x																		
▪ Make parametric changes, such as changes to the retirement age, salary base, and accrual rates under the benefit formula				x	x																	
▪ Clarify and enforce Labour Code provisions relating to compulsory affiliation of all employees and the employers' obligation to provide medical care to employees					x	x	x	x	x	x	x											
▪ Conduct a feasibility study for matching contribution for pension for non salaried workers/**FSDS**																						
▪ Ensure efficient supervision of the establishment of private pension schemes/**BNR**	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		
▪ Establish framework to regulate and supervise and the management of Personal Retirement Savings	x	x	x	x																		
MICROFINANCE AND MICROINSURANCE																						
▪ Ensure effective implementation of the National Microfinance Policy Implementation Strategy and	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	**See National Microfinance and Rural**	

National Rural Insurance Strategy/**FSDS**																					**Micro insurance Strategy**	
▪ **CAPACITY BUILDING PROGRAMME**																						
▪ Conduct a capacity needs assessment study/ **FSDS**			x	x																	**M**	**2,000,000**
▪ Formulate and implement a capacity building program/ **FSDS**					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	**H**	**200,000,000**
▪ **SACCOs**																						
▪ Conduct a comprehensive audit of existing SACCOs/ **Cooperative Agency**	x	x	x																		**H**	**5,000,000**
▪ Updating Census and mapping of all SACCOs and MFIs/ **FSDS and Cooperative Agency**			x	x	x																**H**	**5,000,000**
▪ Have at least one SACCO per UMURENGE or, alternatively, to have at least one point of financial service per UMURENGE which can be a SACCO counter of an MFI, for example/**FSDS and Cooperative Agency**	x	x																			**H**	**10000000**
▪ Decision on the creation and on location of new entities/ **Cooperative Agency**	x																				**H**	**NA**
▪ Mobilising the population/**MINALOC and Cooperative Agency**		x	x	x	x																**H**	**10000000**
▪ Updating legal and regulatory framework regarding taxes, recovery, etc/FSDS, **Cooperative Agency MINICOFIN**		x	x																		**H**	**NA**
▪ Organising all rural activities through cooperatives/**MINICOM** and **Cooperative Agency**				x	x																**H**	**5,000,000**
▪ Program to rehabilitate unhealthy SACCOs and MFIs and recovery of bad debts /**FSDS, Cooperative Agency and BNR**			x	x																	**H**	**5,000,000**
▪ Encourage SACCOs to establish strategic alliances with MFIs/ **Cooperative Agency**			x	x																	**M**	**2,000,000**
▪ BNR, MINICOM, and MINECOFIN to work together in order to raise MFIs awareness of the commercial viability of lending to SACCOs/**FSDS and Cooperative Agency**				x				x				x									**M**	**2,000,000**
▪ Provide technical assistance to develop products and pilot test the products/**FSDS**			x	x	x	x	x														**H**	**20000000**
▪ Mobilise resources for Topping Up of MCBF Funds for SACCOs/**FSDS**		x	x	x																	**H**	**200000000**

▪ Design operation of fund and application procedures/ NSD and AMIR/**FSDS**			x	x																	H	200,000
▪ Publish and disseminate guidance brochure/ NSD and AMIR/**FSDS**				x	x																H	200,000
																					Total:	

Management and Monitoring and Evaluation (M&E)

Action Plan	YEAR 1 QTR				YESR 2 QTR				YEAR 3 QTR				YEAR 4 QTR				YEAR 5 QTR				Priority	Budget
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	H/L/M	
▪ FSDS, National Microfinance Consultative Committee, National Micro insurance Sub committee and other stakeholders convening quarterly to review progress (honorarium for attendance)/ **FSDS**	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	H	32,00000
▪ Arrange a monitoring and evaluation coordination meeting/ **FSDS**		x																			H	200,000
▪ Prepare quarterly progress reports/ **FSDS**	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	H	2000000
▪ Prepare semi annual reports/ **FSDS**		x				x				x				x				x			H	1000000
▪ Conduct independent annual reviews/ **FSDS**				x				x				x				x					H	15,000,000
▪ Organise workshops to disseminate results of annual/ reviews/evaluation/ **FSDS**					x				x				x				x			x	M	3,000,000
▪ Conduct independent evaluation/ **FSDS**																			x		H	10,000,000