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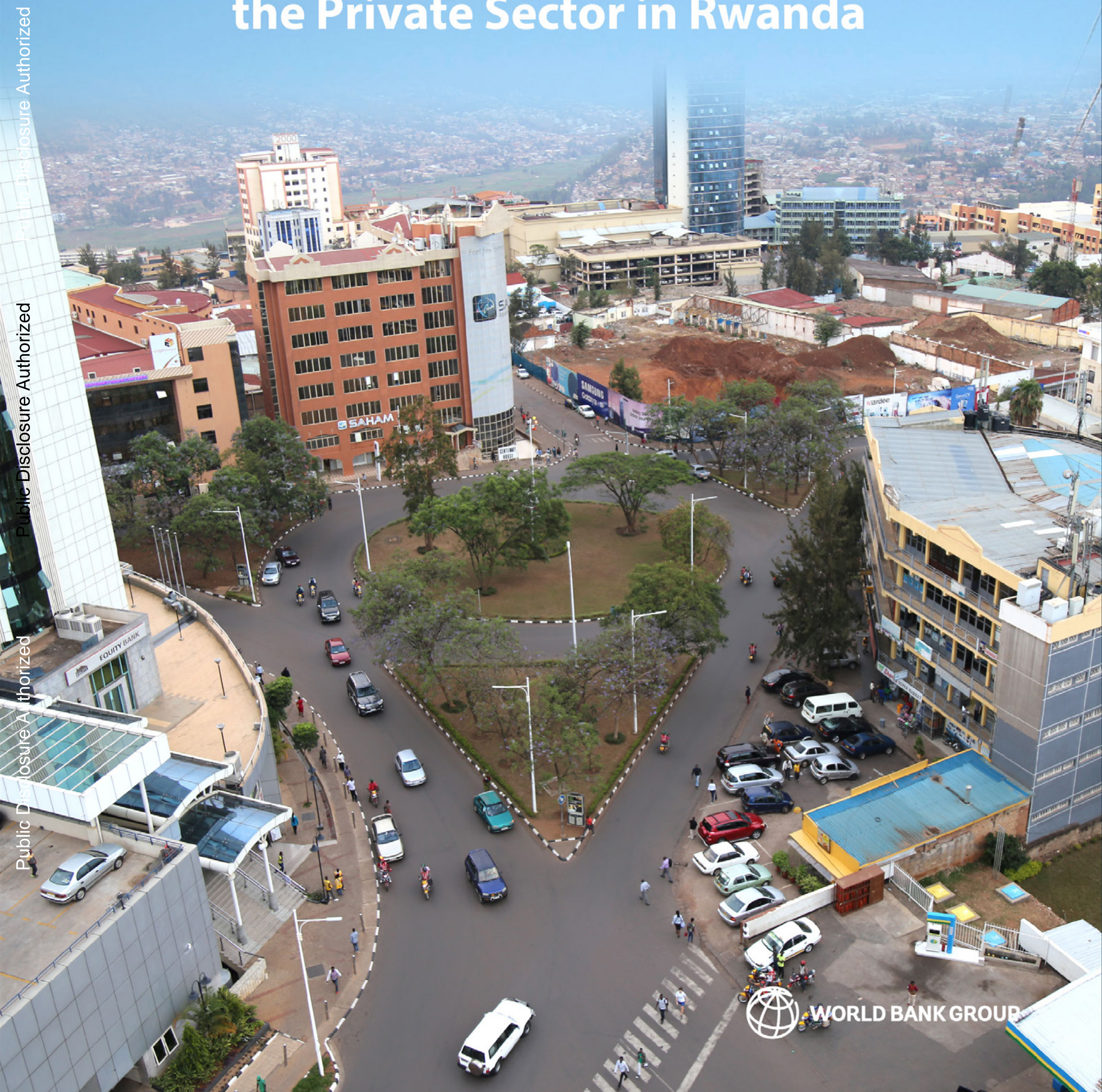
Rwanda Economic Update

February 2024 | Edition No. 22

Mobilizing Domestic Savings to Boost the Private Sector in Rwanda



WORLD BANK GROUP

Rwanda Economic Update

Mobilizing Domestic Savings to Boost the Private Sector in Rwanda

February 2024

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ACRONYMS

BNR/NBR	Banque Nationale du Rwanda
CGAP	Consultative Group to Assist the Poor
CMA	Capital Market Authority
DFS	Digital Financial Service
EAPS	East Africa Payment System
EMDEs	Emerging Market and Developing Economies
FDI	Foreign Direct Indirect
FSP	Financial Service Provider
GDP	Gross Domestic Product
GoR	Government of Rwanda
HHI	Herfindahl-Hirschman Index
HLP	High-Level Principle
ICT	Information and Communication Technology
IMF	International Monetary Fund
LMIC	Lower-Middle Income Country
MFI	Microfinance Institution
MINECOFIN	Ministry of Finance and Economic Planning
MIS	Management Information System
MPFSS	Monetary Policy and Financial Stability Statement
MTOs	Money Transfer Operators
NPL	Non-performing Loan
RSE	Rwanda Stock Exchange
RSSB	Rwanda Social Security Board
RTB	Retail Bond
SACCO	Saving and Credit Cooperative Society
SBIC	Small Business Investment Company
SDG	Sustainable Development Goal
SSA	Sub-Saharan Africa
VAT	Value Added Tax

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The Rwanda Economic Update (REU) analyzes recent economic developments and prospects, as well as Rwanda's policy priorities. The REU is intended for a wide audience of policymakers, business leaders, other market participants, analysts of Rwanda's economy, and civil society. It draws on data reported by the Government of Rwanda and additional information collected by the World Bank Group in its regular economic monitoring and policy dialogue.

Published twice a year, each issue has a special feature spotlighting a particular topic. The 22nd edition of REU focuses on the Role of Financial Sector in mobilizing Domestic Savings in Rwanda. The current edition, led by Calvin Zebaze Djiofack and Peace Aimee Niyibizi, is a collective endeavor and involved staff from several parts of the World Bank. The team includes Rosebud Buruku, Brice Gakombe, Helyda Sarun, Erwin R. Tiongson and Migle Petrauskaite. The team is grateful to Philip Schuler (Lead Economist) and Fiona Elizabeth Stewart for invaluable inputs on the structure and messaging of the report.

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ABSTRACT

The Rwanda Economic Update edition 22 reviews the country's macroeconomic performance and prospects and includes a special section focusing on Mobilizing Domestic Savings to Boost the Private Sector in Rwanda. In 2023, Rwandan economy demonstrated resilience, achieving a 7.6 percent growth in a challenging global environment. This growth was largely attributed to the services sector and sustained domestic demand despite agricultural setbacks and persistent inflation. However, Rwanda faces a challenge in mobilizing domestic savings—critical for private sector investment and achieving the goals outlined in Rwanda's Vision 2050. While financial inclusion has risen sharply, with significant transitions from informal to formal savings methods, Rwanda's savings rates remain low compared to regional peers. The government has undertaken measures to incentivize savings, including tax benefits and the introduction of the Ejo Heza long-term savings scheme. These measures have been complemented by an emphasis on financial education, particularly digital literacy, to align with the expansion of digital financial services (DFS). Despite these efforts, substantial potential exists to enhance savings through strategic regulatory reforms. Policymakers should focus on creating an enabling environment for innovation in the financial sector, supporting the integration of non-banks into the payment system, and fostering customer-centric product development. There is also a need to reduce the high costs of remittances, leveraging the East Africa Payment System and engaging the Rwandan diaspora in capital markets. Furthermore, enhancing gender-focused financial services and collecting sex-disaggregated data are essential to address the unique challenges faced by women, particularly in rural areas, and to harness their economic potential. Rwanda's policy landscape can thus be enriched by targeted interventions to stimulate savings, leveraging the strengths of its growing digital economy, and addressing the financial needs of its population. These efforts, requiring cross-sectoral collaboration, can lead to an inclusive financial system that supports Rwanda's broader economic development objectives.

EXECUTIVE SUMMARY

In 2023, Rwanda's economy showcased resilience and adaptability, achieving a robust growth rate of 7.6 percent in the face of global monetary stringency, challenging financial conditions, and downturns in international trade. Despite lower global prices for its main exports and internal pressures like adverse weather impacting agriculture, Rwanda managed notable growth driven by the services sector, particularly contact-related services, and robust domestic demand fueled by significant investment projects. The services sector, especially information and technology, experienced exponential growth, benefiting from increased internet and mobile subscriptions. The industrial sector also rebounded, led by construction and manufacturing tied to the construction boom. The labor market saw improvements with a significant rise in employment rates and labor force participation, despite a slight uptick in unemployment rates. However, there were disparities in labor trends between genders and urban versus rural areas, with rural employment reflecting the sluggish growth in agriculture.

Rwanda has successfully achieved a balance between controlling inflation and managing external deficits while ensuring fiscal prudence and debt sustainability. Inflationary pressures began to subside, with headline inflation easing to 6.4 percent by December 2023, as the National Bank of Rwanda maintained a tight monetary policy. The banking sector remained profitable and stable, with solid capital ratios and an uptick in lending activities. Externally, the current account deficit widened due to trade deficits and a decline in secondary income, despite a strong tourism sector and remittance inflows. The depreciation of the Rwandan franc and the drawdown on foreign reserves were consequences of these imbalances. Fiscally, Rwanda continued its prudent financial management by reducing non-essential spending and prioritizing investments in human capital. The primary deficit remained stable, financed through external borrowing and concessional loans.

Looking forward, Rwanda's GDP growth is expected to regain momentum, with projections of an average of 7.2 percent growth in 2024–26. This optimism is driven by a recovery in global tourism, new construction projects, and manufacturing activities. Fiscal consolidation will continue, with a focus on reducing subsidies, enhancing oversight of state-owned enterprises, and introducing tax policy measures to widen the revenue base. However, challenges persist, including potential geopolitical tensions and weather-related shocks that may affect the agricultural sector and overall economic stability. The potential for more rapid private sector investment growth in Rwanda is linked to the domestic savings capacity, which is very limited in Rwanda. Both domestic and national savings rates in Rwanda have fluctuated at a low level while the savings rates needed to achieve the development goals in Rwanda's Vision 2050 are far from realization. Beyond not meeting the targets, Rwanda's savings rates lag behind those of other East African countries and other comparators including Ghana, Ethiopia, and South Africa. The main challenges include the weakness of a small financial sector that lacks innovation and has limited outreach to users of financial services, many of whom have patchy financial capabilities.

Rwanda has achieved notable strides in enhancing savings mobilization, evidenced by a marked rise in financial inclusion and the successful introduction of the innovative long-term savings program, Ejo Heza. Recent statistics indicate a surge in financial inclusion rates to 93 percent as of 2020. Additionally, there has been an encouraging shift in savings behavior among Rwandans, with bank savings usage climbing from 13 percent in 2016 to 21 percent in 2020. During the same period, there was a significant reduction in the proportion of

adults who save money at home (10 percent in 2016 vs only 2 percent in 2020) rather than at formal or informal financial institutions.

Although Rwanda is on a positive path, its domestic savings rates are still comparatively low. In 2021, Rwanda's gross domestic savings stood at just 10.5 percent of GDP, one of the lowest among sub-Saharan African (SSA) countries. This limited pool of domestic savings hampers the availability of financial resources for businesses, particularly small and medium-sized enterprises (SMEs), which often identify access to finance as a significant obstacle to their growth.[1] The proportion of the population not saving at all has held steady at 14 percent. Despite governmental efforts to promote formal banking, a large number of Rwandans continue to favor informal savings methods.

There is substantial potential to boost savings by focusing on key driving factors. With the evident commitment of national authorities, financial service providers, the Rwandan diaspora, and development partners, coupled with Rwanda's stable macroeconomic conditions, the stage is set for a supportive environment that could greatly enhance the mobilization of savings.

Subsidies and incentives have proven to be effective stimulants to improve domestic savings rates and insurance enrollment, although not without costs. Rwanda, taking strides in financial sector development, has implemented several incentives, including tax benefits for various savings instruments, and considering strategies to discourage non-productive investments. However, while these measures are effective, Rwanda must weigh their benefits against the associated administrative costs and the complexities of legislative processes to ensure sustainable and practical financial sector enhancement.

Educational programs that highlight the benefits of saving can significantly impact the regularity and amount of individual savings. In the context of Rwanda's expanding digital financial services, there is an urgent need for focused digital financial literacy programs that cater to the nuances of digital savings and the potential risks of FinTech. To achieve this, financial education must be practical, personalized, and easily accessible. Policymakers are encouraged to prioritize such programs, ensuring they are cost-effective and supportive of wider financial inclusion and stability objectives.

[1] See Rwanda's most recent Country Economic Memorandum (CEM).

To propel Rwanda's financial inclusion and savings growth, a comprehensive policy approach that creates an enabling environment for innovation is essential. Despite Rwanda's high mobile adoption and a young population favoring digital financial services (DFS), challenges like digital divide, limited infrastructure, and financial literacy gaps persist. Policymakers should enhance regulatory frameworks, improve financial and digital infrastructure, and expand government support to foster a DFS-friendly environment. This includes enabling non-banks to participate in the payment system and introducing interest-sharing mechanisms, akin to successful models in Ghana and Tanzania, to incentivize digital savings. Embracing digital transformation across the financial sector is urgent and achievable, necessitating cross-sectoral collaboration for a digital-first strategy that aligns with the growing trend of financial digitalization.

Encouraging customer centricity in savings product development among financial service providers could help foster a savings culture. This could involve integrating frameworks like the CGAP [2]Customer-Centric Guide into the product licensing process, ensuring that new savings, pension, and insurance products are designed with the needs of low-income and marginalized groups in mind. Drawing inspiration from international practices, such as those of the Monetary Authority of Singapore and Malaysia, Rwanda could require new financial products to demonstrate a commitment to financial inclusion. While shaping the current market may be challenging, regulators can influence new entrants to prioritize products that support domestic savings mobilization. This approach, aligned with the goals of the draft Rwanda Fintech Policy, may require time and regulatory adjustments to realize its full impact. Considering the low uptake of insurance and pensions in Rwanda, the government's long-term savings scheme Ejo Heza carries substantial potential for savings mobilization in Rwanda. To optimize its effectiveness, reforms such as permitting partial fund access, raising the minimum savings required for government matching, and expanding reach through mandates are necessary. Moreover, capitalizing on retail government bonds, drawing on domestic and diaspora savers, could yield positive results, as evidenced by similar successful strategies in South Africa and the Philippines.

Increasing engagement with Rwandese diaspora are also important interventions for savings mobilization. Remittances, which have recently surpassed foreign direct investment flows, should be leveraged more effectively. The high costs associated with sending remittances to Rwanda need to be addressed, potentially through systems like the East Africa Payment System, which offers lower fees compared to traditional methods. The influx of fintech companies could sustain the growth of remittances, which have been shown to significantly enhance household well-being and spur entrepreneurship. Policymakers should prioritize reducing remittance fees to unlock additional funds for development and consider engaging the Rwandan diaspora in domestic capital markets through diaspora bonds and other initiatives. Encouraging participation in these markets, even for those without bank accounts, could further support Rwanda's financial sector and broader development goals.

Finally, policymakers in Rwanda should promote gender-focused savings products, addressing the widespread but informal savings habits among women, to tap into their economic potential. Financial institutions should be incentivized to welcome small deposits, simplify onboarding processes, and provide rewards for saving, thereby fostering a culture of formal savings among women. Additionally, regulatory bodies could mandate the collection and analysis of sex-disaggregated data to identify and address gaps in financial services for women.

[2] CGAP: Consultative Group to Assist the Poorest.

PART ONE

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

1.1. Global and regional developments

Global growth was weak in 2023 and is set to slow further in 2024 as the global economy continues to confront several challenges.[1] After a sharp slowdown in 2022, the global economy is estimated to have grown at 2.4 percent in 2023–0.6 percentage points below the 2022 growth (Table 1.1). Though global inflation has continued to decline from the 2022 peak, it remains above target in most advanced economies and about half of the inflation-targeting emerging market and developing economies (EMDEs), leading to tighter monetary policies and restrictive financial conditions. Global trade in goods and services was virtually flat in 2023, growing by an estimated 0.2 percent—the slowest expansion outside global recessions in the past 50 years. Metal prices fell by 10 percent in 2023, on account of sluggish demand from major economies, notably China—which accounts for 60 percent of global metal consumption—and are set to further decline in 2024. The World Bank's January 2024 *Global Economic Prospects* estimates that global growth will be at 2.4 percent in 2024. Downside risks include an escalation of the recent conflict in the Middle East, financial stress, persistent inflation, trade fragmentation, and climate-related disasters. Global cooperation is needed to provide debt relief, facilitate trade integration, tackle climate change, and alleviate food insecurity. Among EMDEs, commodity exporters continue to grapple with fiscal policy procyclicality and volatility. Across all EMDEs, proper macroeconomic and structural policies, and well-functioning institutions, are critical to help boost investment and long-term prospects.

Economic growth in sub-Saharan Africa also slowed in 2023. Regional economic growth slowed to 2.9 percent in 2023 and is projected to edge up in 2024 to 3.8 percent. The slowdown reflects mainly weak growth in the region's three largest economies—Nigeria, South Africa, and Angola and metal exporters. Moreover, post-pandemic recoveries were slowed by weakening external demand, domestic policy tightening to address persistent inflation as well as limited fiscal space, resulting from high debt levels and increased borrowing costs. Risks to this outlook include a further rise in global or regional instability, such as the possible escalation of the conflict in the Middle East, which could drive up global energy and food prices; a sharper-than-expected global economic slowdown; increased frequency and intensity of adverse weather events; and increased defaults if attempts to reduce elevated public debt burdens were to fail. Materialization of these risks would also exacerbate poverty and limit the ability of many countries to cope with climate change.

1.2. Real economic activity

Rwanda's economy continued to grow strongly in 2023, amidst a series of challenging external and internal factors. The country navigated a complex global landscape marked by stringent monetary policies, constrained financial conditions, and a downturn in international trade. A key economic pressure for Rwanda arose from its main export commodities fetching lower prices on the global market, leading to a reliance on international reserves and resulting in the depreciation of the

Table 1.1: Global and regional economic growth

	2021	2022	2023e	2024f	2025f
World	6.2	3.0	2.6	2.4	2.7
Advanced economies	5.5	2.5	1.5	1.2	1.6
Emerging market and developing economies	7.0	3.7	4.0	3.9	4.0
Sub-Saharan Africa	4.4	3.7	2.9	3.8	4.1

Source: World Bank Global Economic Prospects (January 2024)

[1] This section is drawn from the January 2024 Global Economic Prospects (World Bank, 2024).

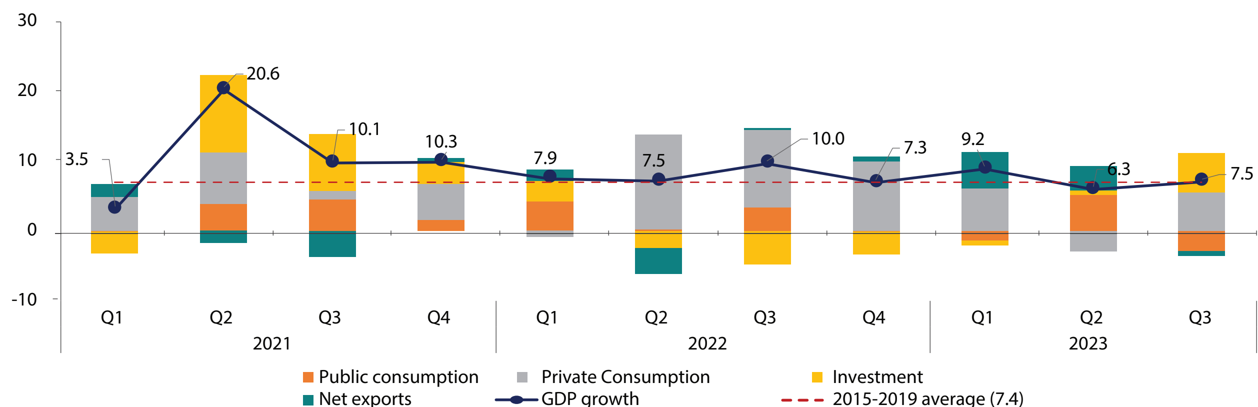
Rwandan franc. Rwanda's real GDP growth in the first three quarters of 2023 reached 7.6 percent (Figure 1.1). This growth rate is notably higher than the average growth experienced between 2015 and 2019, underlining the country's economic resilience and adaptability in the face of adversity. The agricultural sector, which has been under strain since 2022 due to adverse weather conditions and reduced usage of essential inputs like fertilizers, faced further setbacks with the floods of April–May 2023. Additionally, persistent double-digit food inflation exerted substantial pressure on household incomes. Despite these multifaceted challenges, The services sector continued to lead the expansion on the supply side (Figure 1.2). On the demand side, domestic demand remained the main driver of real GDP growth, reflecting investment in the refurbishing activities of the AMAHORO stadium—the biggest football stadium in Rwanda—as well as spending related to reconstruction of some infrastructures destroyed by the April-May 2023 floods. The GDP growth in 2023 is estimated at a robust 7.0 percent.

In 2023, Rwanda's real GDP growth was largely fueled by a resurgence in investment, coupled with steady household consumption. The ongoing reconstruction of the AMAHORO stadium contributed to 10.4 percent increase in investment in the first three quarters (3Qs) and outweighed the dampening effects of rising prices and global uncertainties. Despite being suppressed by inflation and unemployment, private consumption increased by 3.9 percent and accounted for about 38 percent of the real GDP growth during this period. Net exports added 2.6 percentage points to the growth. In the first 3Qs of 2023, exports grew by 19.8 percent, while imports increased by 4.7 percent. Public consumption's contribution to growth was modest, as the government focused on reducing current expenditures to maintain long-term fiscal sustainability.

Growth in services continues to be strong. Services have been the biggest driver of the post-COVID growth, in line with pre-crisis trends. In the first 3Qs of 2023, the services sector expanded by 10.5 percent, contributing significantly (approximately 5.1 percentage points or about 77 percent) to the overall GDP growth of 7.6 percent. This strong performance was mainly driven by four sub-sectors—information and technology, trade, transport and hospitality—that generated more than 55 of the overall services growth and more than 35 percent of the overall GDP growth. Information and technology surged by an impressive 32.5 percent in the first 3Qs of 2023, which could be attributable to a substantial increase in internet subscribers, which rose by 13.1 percent year-over-year, and active mobile-cellular telephone subscriptions, which grew by 15.4 percent year-over-year by September 2023. This makes information and technology the single-largest driver of services growth and overall GDP growth rates. The Output

Figure 1.1: GDP growth, demand components

(percent y/y; percentage points)

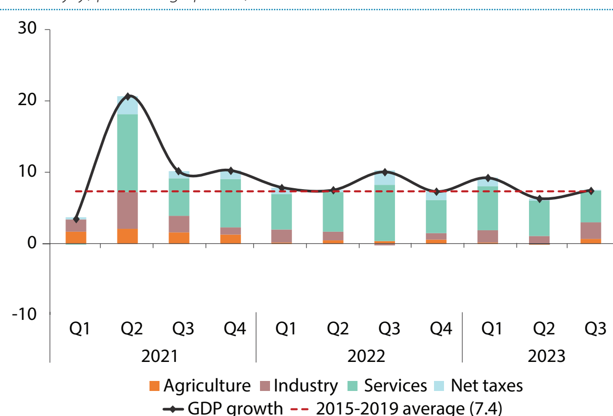


Source: WBG staff computation based on National Institute of Statistics of Rwanda (NISR) databases

in trade services (wholesale & retail trade), the third most important driver of services and overall GDP growth rates, expanded by 10 percent, year-on-year, in the first 3Qs of 2023. The output in transport services expanded by 14.1 percent in the first 3Qs of 2023. The hospitality sector, encompassing hotels and restaurants, emerged as the fourth single driver of second-fastest growing service sub-sector, registering a growth of 17 percent. This growth is largely attributed to Rwanda's continued success in attracting high levels of tourism.

Figure 1.2: GDP growth, supply side

(Percent y/y; percentage points)



Source: WBG staff computation based on NISR

Industry rebounded in 2023, driven largely by a resurgence in construction activities. Industrial output grew by 9.4 percent year-over-year during the first 3Qs of 2023. Coming from a negative growth in 2022, construction grew by 8.6 percent in the 3Qs of 2023, reflecting the refurbishing activities of the AMAHORO stadium and reconstruction of some infrastructures destroyed by the April-May 2023 floods. Generating more than 30 percent of the overall industry growth and 7 percent of the overall GDP growth, the bulk of the construction growth—more than 80 percent—occurred in the third quarter with a 23.5 percent year-on-year growth rate. The food manufacture, the second most important driver of the industrial growth, expanded by 15.1 percent, year-on-year, and contributed more 25 percent to the industrial growth in the first 3Qs of 2023. The mining and quarrying sectors also showed robust performance, growing by 11.6 percent in the same period—despite the low international market prices for these commodities—and generating more than 10 percent of the overall industry growth and 2.3 percent of the overall GDP growth.

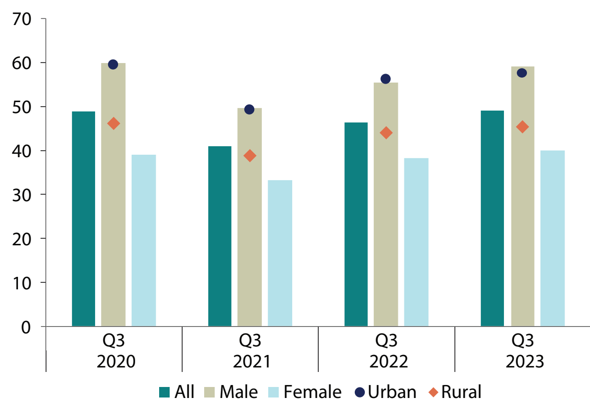
Following six quarters of decline due to adverse weather, Rwanda's food production showed positive growth in the third quarter of 2023. However, the overall contribution of agriculture to GDP growth remained modest—at 3.6 percent—during the first 3Qs of the year. The country's reliance on rain-fed agriculture, with less than 10 percent of croplands being irrigated in 2022–2023, contributes to the growth rate's volatility in food production. Notably, there was a 3.1 percent increase in food production in the third quarter of 2023, marking a turnaround after the previous consistent declines. However, growth in the food production remained negative in the first 3Qs of 2023. Moreover, irregular rainfall patterns continued to impact the production of export crops, which grew by 2.1 percent in the first three quarters of 2023.

1.3. Labor market trends

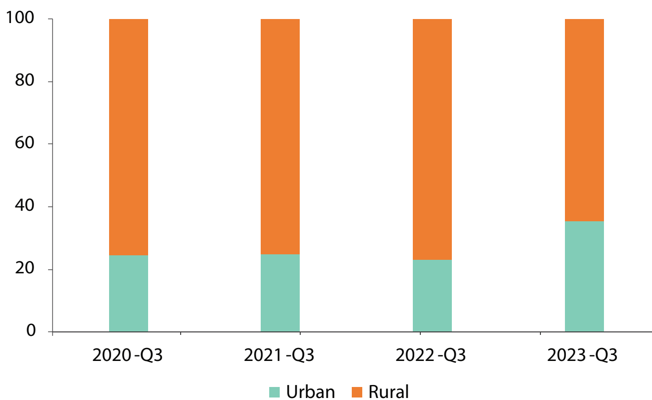
In 2023, the improvement in labor market continued in Q3-2023, with some shifts in the labor market towards urban jobs. The employment-to-population ratio increased by 2.7 percentage points, year-on-year, to by September 2023. Labor force participation rates also increased by 3.2 percentage points (Figure 1.3). In absolute terms since the third quarter of 2022, nearly 316,000 joined the labor force, about 261,000 of whom found employment. The improvement in employment was more in the urban area with a 1.4 percentage points—versus 1.3 percentage points in rural areas—and in male workers with a 3.7 percentage points—versus 1.8 percentage points in female workers. However, because more 55,000 workers were unemployed, the unemployment rate was at 18 percent, comparable to the previous year. The unemployment rate for youth aged 16-30 remained high, at 21.0 percent in the third quarter of 2023, 2.9 percentage points than the national unemployment rate.

Figure 1.3: Rwanda's labour market

A. Employment rates
(Employment-to-population ratio (percent)



B. Share of jobs: urban area vs rural area
(Percent)



Source: Rwanda Labor Force Surveys, various issues

Recent trends in Rwanda's labour market reflect developments in the real economic activities. The bulk of employment expansion was driven by trade, construction, transport and hospitality sub-sectors, in line with their contribution to the real GDP Agriculture employment contracted by over 200,000 jobs, with the loss of agricultural employment affecting male and female workers alike.

Table 1.2: Employment by selected sectors
(percent changes)

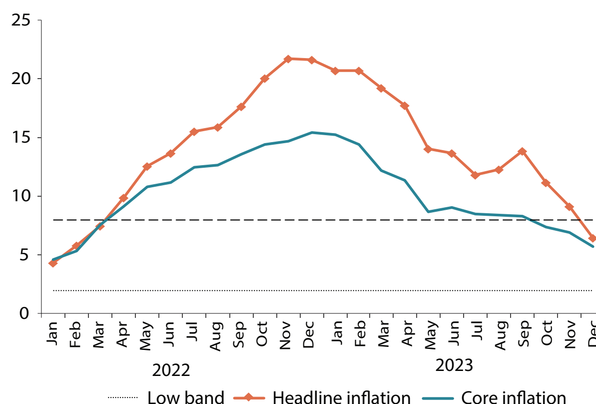
	2023 Q3 vs 2022 Q3
Employed population	7.0
Agriculture, forestry and fishing	-12.2
Mining and quarrying	3.4
Manufacturing	2.7
Construction	19.2
Trade services	49.6
Transport services	32.2
Information and communication	11.0
Hospitality	65.0
Others	12.2

Source: Rwanda Labor Force Surveys, various issues

1.4. Inflation, monetary policy, and financial sector developments

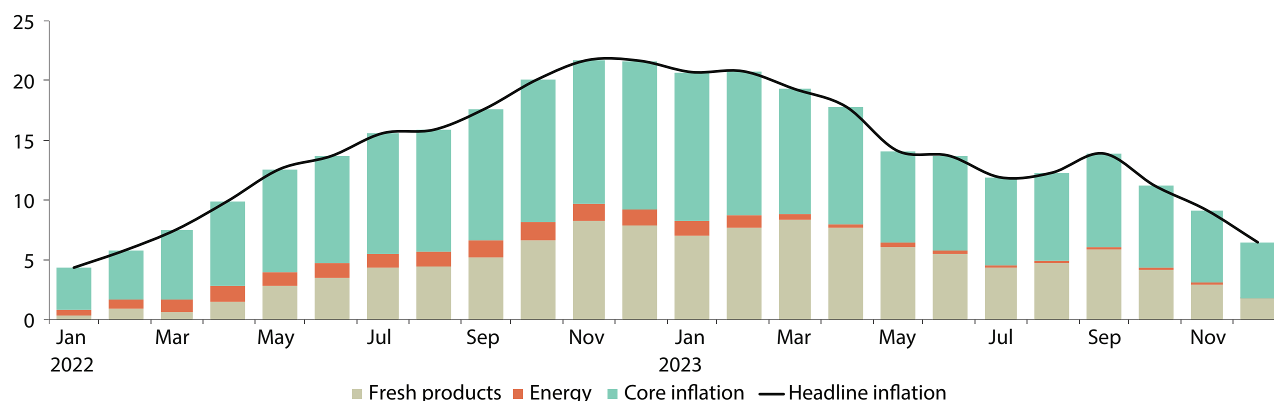
Headline inflation in Rwanda began to ease as the National Bank of Rwanda (NBR) continued its tighter monetary policy. After reaching a peak of 22.7 percent year-over-year in November 2022, inflation gradually fell to 9.2 percent by November 2023—the first time it hit single-digit levels in 18 months—and further slowing to 6.4 percent in December 2023—aligning with the NBR's inflation target for the first time in 20 months (Figure 1.4). This reduction can be attributed to base effects, improvements in domestic food production, lower commodity prices, and the maintenance of a tight monetary policy stance (Figure 1.5). Core inflation, which excludes fresh food and energy prices, also began to decline, falling within the NBR's target range of 5±3 percent since October 2023, and standing at 5.7 percent in December 2023. Despite these easing inflationary pressures, the NBR has opted to keep its monetary policy stringent, maintaining the bank policy rate at 7.5 percent since August 2023. This rate has seen a cumulative increase of 300 basis points since February 2022, rising from 4.5 percent in January 2022 to 7.5 percent in August 2023.

Figure 1.4: Inflation developments
(percent)



Source: WBG staff computation based on NISR Consumer Prices Index December 2023.

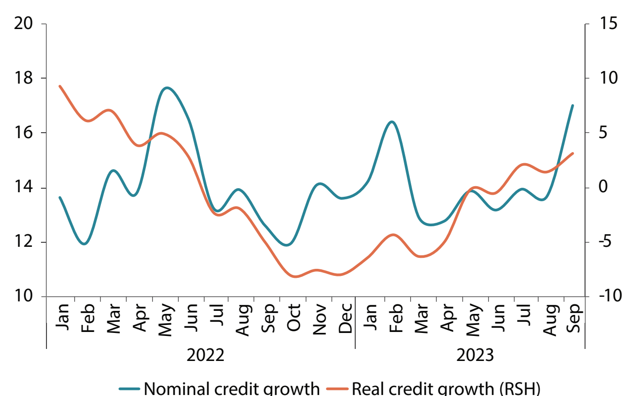
Figure 1.5: Decomposition of headline inflation
((Percentage points)



Source: WBG staff computation based on NISR Consumer Prices Index December 2023

Banks' lending activities remained strong in 2023, despite monetary tightening. In nominal terms, credit growth averaged 14.2 percent in the first nine months of 2023, two percentage points that the annual average in 2022. This growth momentum was largely linked to the growth of new lending. The September 2023 Monetary Policy and Financial Stability Statement (MPFSS) reports that new loans approved by banks increased by more than 40.4 percent during the first half of 2023 (2023 H1), compared to the decline of 7.2 registered in the corresponding period of 2022. Within activity sectors, the same MPFSS shows that credit growth was boosted by increased retail and consumer loans. The real credit growth has returned into positive zones since July 2023, after being negative for 12 consecutive months (Figure 1.6).

Figure 1.6: Credit growth remained strong in 2023
(percentage points)



Source: WBG staff computation based on NBR monetary survey November 2023

1.5. External sector developments

Rwanda experienced a widening of external imbalances in the first three quarters of 2023. The current account deficit rose to 11.9 percent of GDP in the first three quarters of 2023 from 9.3 percent in the corresponding period of the previous year (Table 1.3). Although tourism and remittance inflows remained strong, growth in Rwanda's traditional exports (including coffee, tea, cassiterite, coltan, and wolfram) slowed to 3.5 percent during this period, largely due to lower global metal prices. Additionally, reexports saw a downturn, decreasing by 1.3 percent, influenced by reduced trade activities with the DRC. However, this negative trend in traditional exports and reexports was significantly offset by the growth of nontraditional and non-monetary gold exports, which expanded by 14.8 and 61.6 percent, respectively. As a result, overall exports grew by 19.4 percent, contributing 24.4 percent to the GDP in the first three quarters of 2023. Import spending surged by 20.2 percent, driven mainly by imports of food product—especially cereals and construction materials linked to food shortages experienced in early 2023—and transport materials. To develop public transportation in Kigali—in response to the pressing shortage of public transport vehicles, the government has facilitated the acquisition of 200 electrical buses. As of September 2023, imports accounted for 41.1 percent of GDP. Rwanda's current account has persistently been negative, reflecting a low level of national savings relative to investment needs.

Table 1.3: Balance of payments, 2020–2023
(percent of GDP, unless otherwise indicated)

	2021				2022				2023		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Current account balance	**-9.1**	**-11.6**	**-12.8**	**-10.0**	**-8.1**	**-6.0**	**-13.3**	**-10.1**	**-11.7**	**-10.1**	**-13.9**
Trade balance (goods and services)	-14.0	-17.5	-17.5	-15.5	-13.5	-15.7	-16.2	-14.2	-14.4	-18.3	-17.3
Exports	16.0	18.5	19.7	21.8	20.8	23.2	23.6	22.2	22.7	25.4	25.1
o/w coffee and tea	1.4	1.1	1.6	2.1	1.2	1.1	1.4	2.5	1.3	1.1	1.4
o/w tin, coltan, wolfram	1.0	1.3	1.5	1.6	1.7	1.8	1.5	1.2	1.4	1.6	1.4
o/w tourism	0.9	1.1	1.6	1.8	1.9	3.2	3.9	3.0	3.2	3.4	4.7
Imports	30.0	36.0	37.1	37.4	34.3	39.0	39.9	36.4	37.1	43.8	42.4
Primary income, net	-1.9	-1.5	-1.7	-1.4	-2.5	-1.5	-2.2	-1.6	-1.7	-2.0	-2.3
Secondary income, net	6.8	7.3	6.4	6.9	7.9	11.2	5.2	5.7	4.4	10.2	5.7
o/w external grants to government	3.8	3.9	3.0	3.3	4.3	7.8	1.9	2.1	0.9	6.6	1.9
o/w remittances inflows	3.1	3.6	3.4	3.7	3.6	3.4	3.4	3.5	3.4	3.5	3.8
Capital account balance	**3.0**	**3.7**	**4.0**	**4.5**	**2.5**	**2.3**	**2.5**	**2.4**	**2.8**	**2.8**	**2.7**
Financial account balance (inflows)	**4.5**	**3.7**	**22.8**	**8.3**	**-0.7**	**10.5**	**2.4**	**7.0**	**12.5**	**3.4**	**1.2**
Direct investment, net	1.5	2.3	2.4	2.3	2.2	2.0	2.4	2.5	2.4	2.2	2.6
Portfolio investment, net	0.0	0.0	10.1	-0.2	-0.1	-0.3	-0.3	-1.0	0.0	-1.7	0.0
Loans and other inflows, net	3.0	1.4	10.3	6.3	-2.7	8.8	0.3	5.5	10.1	2.9	-1.4
o/w government borrowing	6.8	5.3	2.7	19.7	4.2	4.1	2.3	1.0	12.0	3.3	1.9
Net errors and omissions	-2.7	1.4	-4.4	-0.2	-0.2	-1.4	0.9	5.0	-7.1	7.6	0.9
Increase in reserves	**-4.3**	**-2.9**	**9.6**	**2.7**	**-6.5**	**5.4**	**-7.5**	**4.2**	**-3.5**	**3.7**	**-9.1**

Source: WBG staff calculations based on NBR and NISR data.

Foreign direct investment (FDI) and government borrowing only partially financed the current account deficit, leading to a drawdown on foreign reserves. FDI inflows expanded by 21.4 percent in the first three quarters of 2023, reflecting continued improvement in economic activities. The other important source for financing the current account deficit is government borrowing, much of in concessional terms from development partners. However, it was not enough to finance the current account deficit, leading to a drawdown on foreign reserves in the first three quarters of 2023. The low level of reserves, together with the high demand for imports led to a 17.4 percent depreciation of the franc against the U.S. dollar in 2023.

1.6. Fiscal sector and debt developments

In the fiscal year 2022/23, Rwanda continued to strengthen its financial management. The government focused on enhancing revenue collection through a medium-term strategy, despite facing inflation-related challenges. Government made efforts to reduce non-essential and ineffective spending, with an emphasis on selecting efficient projects and discontinuing non-viable ones, while prioritizing health, education, and social protection. The government reduced spending to 28.6 percent of GDP from 32.2 percent in the previous year, with infrastructure spending falling to 9.9 percent of GDP from 11.6 percent, and other recurrent expenditures declining to 18.7 percent from 20.6 percent. The overall and primary deficits remained almost similar to the previous year at 6.2 percent and 4.3 percent of GDP, compared to the forecasted 7.6 percent and 5.8 percent. This government financed the deficit mainly through external concessional loans, with external borrowing constituting 5.3 percent of GDP. Domestic borrowing accounted for 0.8 percent of GDP (Table 1.4). Issuing domestic debt the governments taps into private savings that would

otherwise be available to finance private investment. Normally, government securities—treasury bills and bond—are nearly risk-free, so that commercial banks would prefer to lend to government instead of to the private sector. However, the government of Rwanda has been caution in borrowing domestically to avoid crowding out the private sector.

In the FY2023/24 budget, the government envisages a temporary fiscal relaxation to cushion the effects of the recent floods. Total reconstruction spending is anticipated to be around 3 percent of GDP over the next five years, of which two thirds will be executed in FY2023/24 and FY2024/25. Despite this, the government remains committed to the medium-term fiscal policy geared towards maintaining fiscal and external sustainability, such as (i) the implementation of domestic revenue mobilization (DRM) measures under the Medium-Term Revenue Strategy (MTRS), (ii) spending rationalization measures and (iii) improving the transparency and the efficiency of public financial management and investment practices and enhancing the management of fiscal risks. In FY2023/24, Total spending is projected at 28.0 percent of GDP—0.4 percentage points lower than in FY2022/23. The overall fiscal deficit is projected at 6.1 percent of GDP.

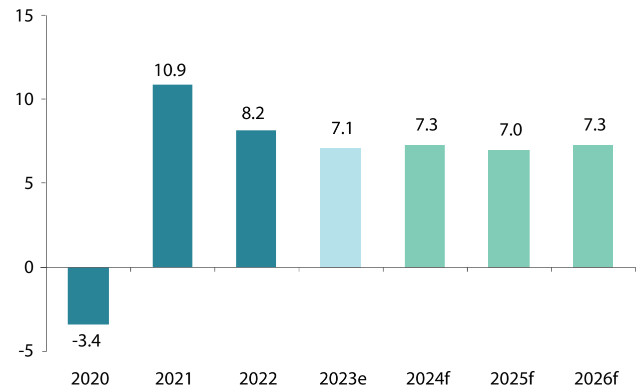
Table 1.4: Government financial operations, FY2020/21-FY2023/24
(percent of GDP)

	FY2020/21	FY2021/22	FY2022/23	FY2023/24 budget
Total revenue	**25.3**	**26.0**	**22.3**	**21.8**
Taxes	16.0	15.8	15.0	15.3
Other revenues	3.8	3.3	2.6	2.6
Grants	5.5	6.9	4.7	4.0
Total expenditure	**32.6**	**32.2**	**28.5**	**28.0**
Expense	20.4	20.6	18.7	18.4
Compensation of employees	2.9	2.7	2.4	2.7
Use of goods and services	6.1	5.7	4.9	4.6
Interest payment	1.8	1.8	2.0	2.4
Subsidies	2.5	3.2	2.0	1.8
Grants	5.3	5.5	6.3	5.8
Social benefits	0.4	0.5	0.3	0.3
Other expense	1.3	1.2	0.8	0.8
Net acquisition of non-financial assets	12.2	11.6	9.8	9.5
Foreign financed	6.7	4.9	4.9	5.9
Domestically financed	5.5	6.7	4.9	3.6
Primary balance	**-5.6**	**-4.3**	**-4.2**	**-3.7**
Net lending (+)/borrowing (-)	**-7.3**	**-6.2**	**-6.2**	**-6.1**
Net acquisition of financial assets	1.5	4.3	-0.5	0.9
Net incurrence of financial liabilities	8.9	10.5	6.1	7.1
Domestic	2.5	1.8	0.8	0.1
Foreign	6.4	8.6	5.3	7.0

Source: WBG staff computations based on MINECOFIN various budget executions reports and budget framework papers.

Rwanda's debt will remain sustainable over the medium term, even at its elevated debt trajectory. The December 2023 joint World Bank-IMF debt sustainability analysis (DSA) assessed Rwanda's debt to be sustainable with a moderate risk of external and public debt distress, which is in line with previous DSAs since 2020.[2] Most of Rwanda's external debt is owed to multilateral donors on concessional terms. The share of concessional borrowing accounted for over 65 percent of total public external debt by the end of 2023. Rwanda's public debt outstanding also includes a 10-year Eurobond—US$620 million Eurobond—issued in August 2021 at a coupon rate of 5.5 percent. This was the second Eurobond issuance for Rwanda after the US$400 million Eurobond issued in 2023 at a coupon rate of 6.25 percent. This was mostly repaid using the proceeds from the August 2021 issuance.

Figure 1.7: Rwanda's projected growth in the medium term
(percentage)



Source: WBG staff computation based on NBR monetary survey November 2023

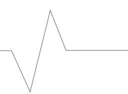
1.7. Economic outlook and risks

GDP growth is expected to regain momentum, increasing by 7.2 percent on average in 2024–26, in line with the previous REU. After bad performance in the last two years, agriculture is expected to rebound in 2024 as favorable weather conditions, in the 2023 September-November "short rains" season. This improvement will also be supported by continued growth in global tourism demand, construction with the Bugesera airport and ongoing refurbishing of the AMAHORO stadium, and manufacturing activities supported by the Manufacture and Build to Recover Program. The current account deficit is projected to remain wider in 2024 due to imports related to post-flood reconstruction efforts, and the large airport construction project. Moreover, metal prices are set to decline again as the slower growth in China further weighs on metal demand. Continued strong FDI inflows and concessional financing will cover external financing needs. Inflation is expected to gradually return within NBR's target of 5±3 percent in 2024.

[2] IMF (2020) Request .or Disbursement Under the Rapid Credit Facility. IMF Country Report No. 20/207.

The government maintains its commitment to fiscal consolidation over the medium term. In the FY24–FY26 budget framework, the government projects spending cuts largely through streamlining and gradually reducing subsidies particularly those related to energy and fuel as well as state-owned enterprises by strengthening their oversight and governance and risk management while safeguarding fiscal space for human capital spending. On the revenue side, the government plans to introduce several tax policy measures envisioned in the Rwanda Medium Term Revenue Strategy (MTRS) aiming at improving revenue administration and cutting tax rates while broadening the tax base. However, Rwanda's fiscal consolidation will be challenged by increased spending related to the reconstruction efforts from the April–May 2023 flood disaster. Under this baseline, public debt would peak at 78 percent of GDP in 2024 before gradually improving over the medium term.

This outlook is subject to substantial downside risks. While Rwanda has limited direct trade and financial links to the Middle East, the intensification of the conflict in the region could lead to further disruptions to global trade and economy, thus affecting Rwanda mainly through a reduced of global demand of its main export products.. Lower availability of concessional resources and lower external demand fueled by monetary tightening in advanced economies pose further downside risks. The main risk on the domestic front is linked to the increasing frequency of weather and climate shocks (e.g., drought and floods), which could harm agricultural output and thereby impact many farms and households in Rwanda. Decreased production could also lead to higher food prices to the detriment of poor households. Investing in and operationalizing planned land management interventions would offer meaningful benefits for inclusive and climate-resilient growth.



PART TWO

MOBILIZING DOMESTIC SAVINGS IN RWANDA

Rwanda needs to shift its growth strategy from government-led to private sector-led, driven by private investment to compensate for limited government spending capacity. Public debt jumped from 20.4 percent of the national GDP in 2010 to a peak of 73.6 percent during the pandemic in 2021, before it marginally retreated to 66.7 percent in 2022 (World Bank, forthcoming). Meanwhile, private investment growth has not kept pace with public investment. Specifically, private investment grew modestly from 12.7 percent of GDP in 2007 to 15.8 percent in 2022. In contrast, public investment witnessed a more substantial rise, from 5.0 percent of GDP to 13.8 percent during the same period. When compared to regional counterparts in 2022, Rwanda's private investment was lower, with Uganda at 16.9 percent and Tanzania at 24.3 percent of their respective GDPs. Given the backdrop of sluggish productivity and limited fiscal resources, Rwanda needs to bolster private investment to adequately complement public spending and sustain economic growth (World Bank, forthcoming).

Mobilizing savings is fundamental to support investment and growth. Whether they be short-, medium-, or long-term, savings enable households or firms to smooth consumption in the face of uneven income flows, to accumulate assets for the future, and to better prepare for emergencies. Aggregate investment in an economy—which together with the depreciation determines the capital stock available for production is driven by the volume of available savings from both national and foreign sources (see Box 2.1). Rwanda's economy has traditionally relied mostly on foreign savings, including FDI (around 3.5 percent of GDP in 2022) and loans from abroad (around 7.3 percent of GDP in 2022). National savings, which include savings from the government (basically fiscal balance), households, firms, and the net income of Rwandan citizens from abroad (including remittances), represented 14.2 percent of GDP in 2022. Remittances contributed about 3.5 percent of GDP. The main drivers of national savings have been household and remittances. The accumulation of the fiscal deficit in recent years means the government contributed negatively to national savings. with the potential to crowd out private sector investments and hamper future growth. This underlines the importance of the ongoing fiscal consolidation plan as a key strategy to boost future savings in Rwanda.

Box 2.1: Saving-investment identity

The saving-investment identity states that the savings in an economy can, in turn, be invested, i.e.,

Investment = Saving

which can be further disintegrated (as below) to better understand the relevance of savings, and domestic savings in particular, for an economy:

Investment=National Savings+Foreign Savings (incl.FDI and loans from abroad)

where

National Savings=Domestic Savings+net income from abroad (incl.remittances)

and

Domestic Savings=Public Savings (T-G)+Household Savings+Business Savings

Source: WBG staff elaboration

Table 2.1: Components of national savings

	2015-2019	2020-2022
Total investments (percent GDP)	23.8	25.2
National savings (percent GDP)	11.5	14.1
Domestic savings	8.2	9.4
Household savings	8.4	11.8
Government savings	-0.2	-2.4
Transfers from abroad	3.3	4.7
Remittances	1.6	2.9
Foreign savings (percent GDP)	12.3	11.2
Other inflows from abroad (percent GDP)	9.6	9.0
FDI (percent GDP)	2.7	2.2

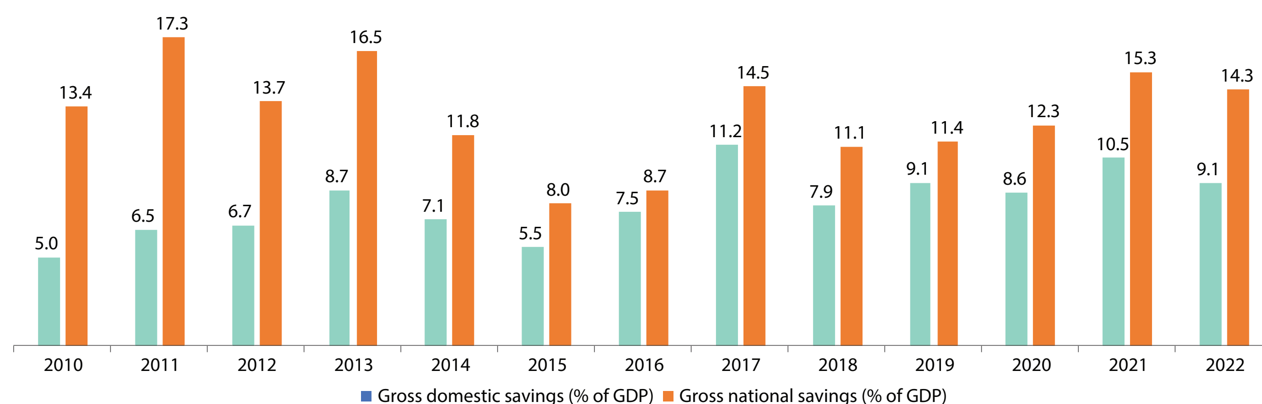
Source: WBG staff computation based on NISR (GDP numbers), BNR (Balance of Payments) and MINECOFIN (Fiscal data)

Reliance on foreign financing and aid creates a vulnerability for the economy. In the context of depleting generosity of donors, external finance poses a challenge to the sustainability of growth. It is therefore an important policy goal for Rwanda to seek to increase domestic savings (household, firms, and government) as part of its objective to move to a middle-income country. This section discusses the state of Rwandan saving mobilization focusing on i) the patterns of savings mobilization in Rwanda; ii) the assessment of key financial products with the potential to increase national savings, specifically pension, insurance, and long-term savings (Ejo Heza); and iii) policy options to boost domestic savings in Rwanda. *This section* focuses mainly on savings from households, firms, and remittances.[3]

2.1. The state of domestic savings mobilization

The Government of Rwanda (GoR) has recognized the importance of increasing savings to finance economic growth, yet the enhancement of savings has been slow. Rwanda aspires to achieve upper middle-income status by 2035 and high-income status by 2050, as laid out in its Vision 2050, with domestic savings and foreign capital key to this advancement. Despite these ambitions, the levels of both domestic and national savings have been relatively low since 2010 (Figure 2.1). When compared to similar countries, Rwanda's domestic savings rate as a portion of its GDP does not stand out (Figure 2.2). In seeking economic benchmarks, Rwanda often compares itself with nations like Singapore and Mauritius. In 2022, Singapore's gross domestic savings rate stood at a remarkable 60.1 percent, significantly higher than Rwanda's 9.1 percent. Mauritius's savings rate was 13.8 percent, which, while higher than Rwanda's, highlights the challenges of savings mobilization despite favorable economic conditions. This contrast suggests that

Figure 2.1: Gross domestic savings and gross national savings as percent of GDP
(percent)

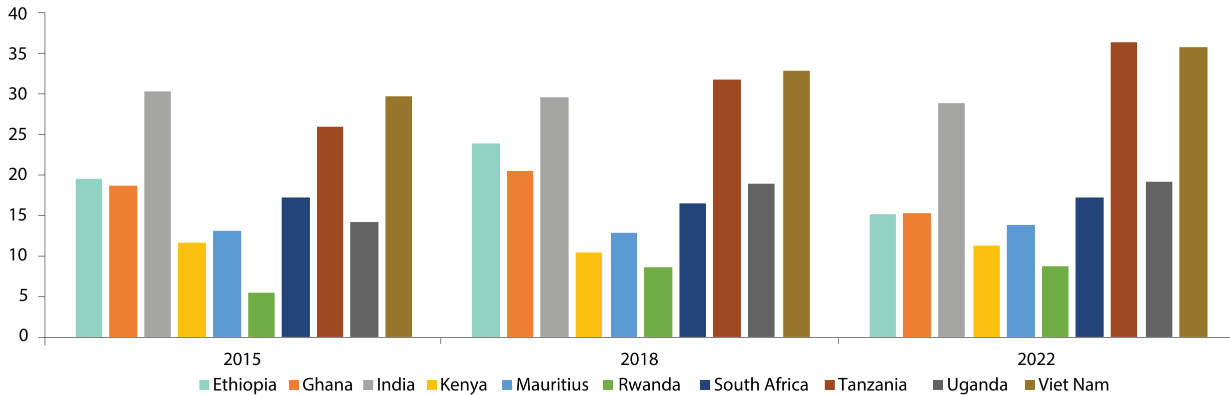


Source: WBG staff computation based on World Development Indicators
Notes: Domestic savings are the part of income that is not spent on current consumption, calculated as GDP minus final consumption expenditure or gross national disposable income minus final consumption expenditure.

[3] Public saving and government are discussed in section I while the ongoing CEM discusses extensively measures to fiscal consolidation plan.

Figure 2.2: Gross domestic savings – Rwanda and peers

(percent of GDP)



Source: World Bank's WDIs

while Singapore's achievements could set a high bar for Rwanda's savings goals, Mauritius's experience serves as a cautionary tale of the complexities involved in boosting savings.

To mobilize savings, the populations should be financially included, and recent data show strong progress in this regard. Financial inclusion in Rwanda increased to 93 percent in 2020, with the bonus that access through only informal mechanisms fell from 21 percent to 16 percent. At the same time, the number of bank accounts and mobile money accounts has been increasing steadily (Figure 2.3). This represents a strong scaffold for driving savings, but also raises questions about why savings are not where is should be.

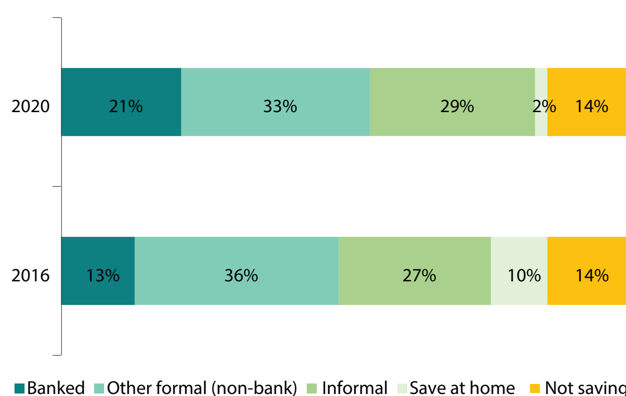
In recent years, Rwanda has seen significant advancements in its banking sector, which has enhanced the mobilization of savings. The percentage of Rwandans utilizing banks for savings increased from 13 percent in 2016 to 21 percent in 2020, indicating a growing trust and reliance on formal banking services. This trend suggests that leveraging the banking sector could be an effective strategy for fostering continued economic growth through savings (FinMark Trusk, 2022). Despite these improvements, 29 percent of Rwandans still depend on informal savings methods, such as savings groups, without using any formal savings products. This demographic represents a potential opportunity to transition individuals from informal to formal savings mechanisms. Comparatively, in South Africa, the use of informal savings channels increased slightly from 24 percent in 2019 to 26 percent in 2022 (FSCA, 2022). Non-bank financial institutions also play a significant role, with 33 percent of Rwandans engaging with formal non-

Figure 2.3: Number of bank accounts and active mobile money accounts

Source: National Bank of Rwanda

bank savings products. This rate surpasses the usage of banks for savings, highlighting the importance of non-bank entities in the financial ecosystem. Remarkably, only two percent of Rwandan adults now keep all their savings at home, a sharp decline from 10 percent in 2016 (Figure 2.4). In contrast, a significant 47 percent of Tanzanians still prefer to save money at home as of 2023 (FSDTanzania, 2023). The consistent rate of overall savings, coupled with the reduction in exclusively home-based savings, suggests that more Rwandans are taking advantage of the various available savings methods.

Figure 2.4: Saving behavior in Rwanda
(percent, 2016 vs. 2020)[6]



Source: FinScope 2020.

While the positive developments within Rwanda's financial sector are welcome, industry leaders and policymakers need to address certain challenges to maximize the country's savings potential. While the use of bank accounts for saving has notably increased from 13 to 21 percent, there has been a slight decrease in the use of non-bank accounts, from 36 to 33 percent, signaling a need to focus on bolstering this area. Additionally, informal savings groups continue to be preferred over banks, mobile money, and Umurenge SACCOs, indicating a reliance on traditional saving methods. The prevalence of financial access through informal channels is also on the rise, having increased from 27 to 29 percent. Concerningly, the proportion of adults not saving at all has remained unchanged at 14 percent between 2016 and 2020. This stagnation suggests that to encourage more widespread saving, there must be a cultural shift towards saving, potentially through increased financial literacy programs and strategic engagement initiatives. In addition, while the rate of inclusion overall is increasing, the fact that the percentage of Rwandans—whether they are financially included or not—is static at 14 percent points to the need to focus specifically on efforts to build a saving culture that is agnostic of if they have any financial account.

2.2. Determinants of savings behavior at household level

A study on the determinants of household savings in Rwanda conducted by the Institute of Policy Analysis and Research Rwanda (IPAR) in 2018 combined longitudinal household data and primary interviews to reveal that 41 percent of Rwandan households saved in formal financial institution, while 58 percent contributed to a Tontine—a form of community saving groups. And while more households saved through Tontine, the amounts contributed were lower than those saved in bank accounts. The main reason for saving in Rwanda were identified as securing food and other household daily needs (41 percent), paying for children's education (18 percent) and raising capital for their businesses (9 percent). Of those that did not save, 57 percent claimed that poverty, mindset, and lack of saving knowledge were the main causes. For Rwandans, access and trust were the most important criteria when choosing any form of saving, as cited by 79 percent of respondents. This explains the preference towards Tontines—a saving mechanism that is easily accessible, built upon trust among members and conducive to saving mostly in small amounts.

The study also found that households where the head had less education or was female, or the household was rurally located or with agriculture as the main source of livelihood were all less likely to save in a formal institution. Keeping other factors constant, education stands out as the most influential factor in the amount deposited in

[4] In constructing this strand, the overlaps in savings product/services usage are removed.

an account. Not surprisingly, being in poverty and not benefiting from social protection programs significantly reduced the propensity to save in formal institution.

2.3. Development of financial system and savings

Although the financial sector in Rwanda has expanded significantly and diversified over the past decade, it remains in its early development stages and is highly constrained by the small market size that limits economies of scale. It is bank-centric, concentrated, segmented, with limited penetration and declining competitive forces, and financing a small share of economic agents. According to the 2021 FSAP, there has been an increase in the market concentration by the largest banks with the share of loans by the three largest banks increasing from 47 percent in December 2015 to 55 percent in September 2020. The share of deposits for the largest three banks has also increased, from 49 percent in 2015 to 53 percent in 2020. Similarly, the share of assets by the largest three banks increased from 45 to 48 percent over the same period. Most importantly, a well-known indicator measuring the degree of banks' market power, the Lerner index, indicates that not only banks have significant market power, but their pricing power has increased in recent years, from 30 percent in 2016 to 40 percent in 2019. Banks, microfinance institutions (MFIs), and SACCOs rely on short term deposits as their main source of funding. A large share of deposits come from a few corporate and institutional investor clients, reflecting the low availability of retail deposits.[5] MFIs and SACCOs have driven gains in financial inclusion, especially in rural areas, however their role remains limited due to fragmentation, governance, funding constraints, and lack of digitalization.

[5] In 2020, 86 percent of adults reported having savings, but only 21 percent had done so in a bank, and another 33 percent had formal savings products from non-banks (FINSCOPE 2020).

This section introduces the key financial products that have the potential to contribute to an increase in domestic savings. The financial products selected are those that are deemed to have the largest potential for impacting household savings.

2.3.1. Pension system

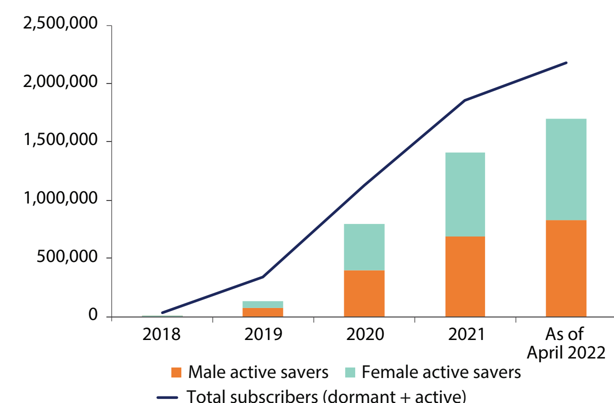
A good pension system provides elderly assistance and is a source of savings for long-term investment (Nyang`oro & Njenga, 2022). Rwanda's approach to pension systems shows both the challenges of traditional schemes and the promise of innovative programs in enhancing domestic savings. The Rwanda Social Security Board (RSSB) operates a traditional pension scheme that functions as a partially funded pay-as-you-go defined benefit system, which is mandatory for salaried workers and optional for non-salaried workers. However, due to the predominantly informal employment sector in Rwanda, less than 10 percent of the working-age population is covered by this mandatory scheme. The scheme faces issues with coverage, adequacy, sustainability, and equity,[6] partly because of a uniform contribution rate and benefit formula regardless of retirement age, and contribution rates that place a heavier financial burden on future generations.

In contrast, the Ejo Heza scheme, a voluntary defined contribution program established in June 2017, has shown remarkable progress and potential for boosting domestic savings. Within just four years, Ejo Heza has reached 27 percent of the working-age population (World Bank, 2023), drawing significantly from low-income households and the informal sector, which comprises 87 percent of its savers. Additionally, the scheme has made a notable impact on financial inclusion for women, with 49 percent of its subscribers being female, compared to the 32 percent female participation in the formal RSSB scheme. This success, highlighted by the active contribution of 78 percent of its

[6] Based on World Bank internal analysis of Rwanda's financial sector in 2021.

subscribers, positions Ejo Heza as a pivotal model for increasing domestic savings and providing a more inclusive pension system in Rwanda (Figure 2.5).

Figure 2.5: Ejo Heza participation, 2018-2022



Source: World Bank (2023).

The pension systems in sub-Saharan Africa (SSA) are characterized by low coverage and participation rates, which therefore fail to guarantee a basic income to the elderly (Nyang`oro & Njenga, 2022). The contributory nature of most private pension schemes is also not favorable due to high informality, low incomes and high financial illiteracy which limit contributions. The pension sector in SSA is generally immature, has low coverage and low contributions. Rwanda, unfortunately, does not compare favorably to its neighbors on coverage ratios (Table 2.2).

Table 2.2: Coverage ratios of pension schemes across selected East African countries

Country	Coverage ratio
Kenya	20%
Tanzania	10%
Uganda	14%
Rwanda	10%

Source: World Bank (2019)

These challenges in the pension sector in Rwanda and beyond are coupled with problems of unemployment, large informal sector, and lack of appropriate vehicles to invest in infrastructure. Due to these conditions, Rwanda should seek to move towards a targeted universal pension system financed through public resources. This shift, however, would need to be measured and gradual so as not to cause fiscal strain. A few countries—including Ghana, Nigeria, and Kenya—have also introduced micro pension schemes where the informal sector pensions are on the rise and these may increase the asset base of the pension industry (Assefuah, Moleko, & Abor, 2022).

With only a modest increase in private pension coverage, the Rwandan government has an opportunity to boost pension savings. According to FinScope data, only 13 percent of Rwandans had a private pension in 2020, up only two percentage points from 2016.[7] The government could therefore consider the following to boost pension savings: 1) Increase pension participation and coverage by including the unemployed and those in the informal sector. This could be achieved through a targeted universal pension scheme, expanding Ejo Heza, and greater financial literacy. 2) Bundling pensions with other products such as life insurance cover, and even matching contributions to foster greater participation and long-term savings in pension funds. Favorable tax considerations can also enhance the growth of contributions and assets of pension funds.[8] 3) Leverage innovations in digital technology to increase pension savings. 4) Review regulatory frameworks of the pension sector to open it up to the unserved population. There is also a need to streamline management of pensions and minimize costs of administration, especially for private pensions.

2.3.2. Insurance

Insurance can mobilize domestic savings, but its uptake remains low. Insurance turns accumulated capital into productive investments and further enables the mitigation of loss, promotes financial

[7] Difference in coverage between Finscope and World Bank data in Figure 11 may be due to differences in methodology but should not be cause for alarm given how minor they are.

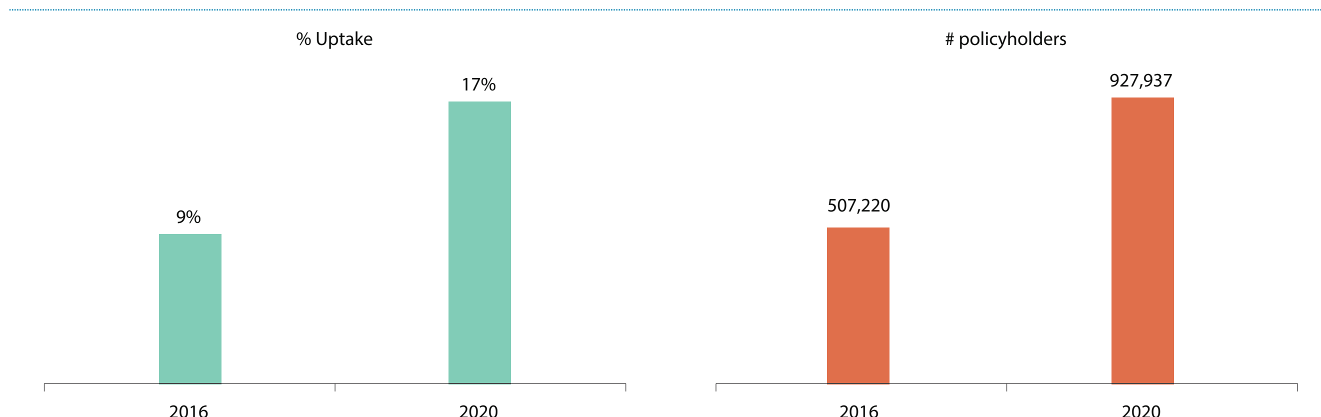
[8] However, any use of tax incentives to boost household savings needs to be assessed against the resulting reduction in public savings to determine whether domestic savings rises or falls.

stability, and stimulates trade and commerce activities that result in economic growth and development.[9] Health insurance enrollment is viewed as an ex-ante measure for individuals to mitigate the effects of future risks.[10] It could thus be argued that households' participation in health insurance affects their choices of financial services both before and after risks occur. On the one hand, when members of a household have health insurance, it is likely that their choices of other ex-ante risk management instruments, such as savings and investments, will be influenced to some extent. There are two opposing ways in which insurance take-up would impact savings and investments; for example, households may decrease them because they perceive a lower need for future medical costs, or increase them because their current out-of-pocket payments on health care are reduced, allowing them to increase both other expenditures and savings at the same time.[11] While there is no data at present to determine how the choices of Rwandans are impacted by insurance, knowing that there is an opportunity to influence that choice to drive savings is useful at a policy level.

Insurance uptake in Rwanda is growing, but from a very low base (Figure 2.6). The main barriers to uptake in Rwanda are affordability and lack of awareness. The main areas of growth are in life insurance and household insurance, while the main decline is in medical insurance. Rwanda also falls behind key benchmark countries (notably Ghana, Nigeria, and Kenya; Table 2.3) in several key insurance metrics.

Despite outperforming its African peers in insurance premium contributions, Rwanda's insurance industry faces significant challenges in enhancing competition and profitability. Rwanda has higher premiums as a share of GDP (1.6 percent) compared to identified African comparators, but this was still very low compared to the 6.1 percent global average in 2019. In addition, based on standard insurance sector metrics, Rwanda's insurance sector requires particular focus to improve the level of competition and profitability of the sector. This is measured via the HHI which is a commonly accepted measure of market concentration and fragmentation. The natural level for HHI for the life industry is 2,500 and 1,100 for the non-life industry. HHIs above these indicate that the industry is not competitive and HHIs below this indicate that the industry is competitive and fragmented. Rwanda's level is 3,624 for life and over 1,400 for non-life, highlighting how uncompetitive the sector is in the country and how poorly it compares to the benchmark countries.

Figure 2.6: Insurance uptake



Source: FinScope 2020.

9 World Bank 2006.

10 Jorgensen and Siegel, 2019.

11 Kirdruang & Glewwe, 2018.

Table 2.3: Key insurance metrics in select African countries

Theme	Indicator		Ghana	Nigeria	Kenya	Rwanda**
Size	Penetration (GWP*** % GDP)		1.14	0.3	2.6	1.6
	GWP (US$ billion)		0.5	1	2	0.14
Value	Insurer's asset base (US$ billion)		1	3.2	5.1	0.46
	Size of life industry (% of total market premiums)		45	32	40	18*
	Claims ratio (%)	Life	N/A	451	N/A	69*
		Non-life	39	30	63	64*
	HHI***	Life	1,750	1,173	1,113	3,624*
		Non-life	819	464	523	1,410* 2,037*
Competition	Combined ratio (%)	Life	N/A	112	N/A	108*
		Non-life	N/A	125	102	114*

Source: (2019).
*Notes: * Includes only private insurers ** includes both public and private insurers; *** GWP is Gross-written premiums; **** HHI: The Herfindahl-Hirschman Index*

There are several examples of other countries displaying policy leadership or flexibility in their approach to oversight of the insurance sector which have resulted in the expansion of the market and greater uptake. In Kenya, for example, the Insurance Regulatory Authority is bestowed with an explicit market development mandate that it has effectively leveraged to support inclusive insurance and broader market development initiatives. Ghana has also been an example of successful coordination across the industry. Specifically, when the banking regulation did not allow the use of airtime as legal tender for payment of insurance premiums in Ghana, negotiations between the Bank of Ghana and the National Insurance Commission (insurance regulator) were undertaken to permit the payment of insurance premiums via airtime deductions. This effort gave rise to the Market Conduct (M-Insurance) Rule of 2017, and with the allowance of e-signatures and digital insurance providers being allowed to operate only with a letter of no objection rather than a full license, there was a significant uptick in the mobile-insurance, which appealed mostly to the mass market. Rwanda can learn from these examples by having the insurance regulator take a more opportunistic approach to growing the market.

Insurance companies in Rwanda have suggested ways to strengthen the sector, emphasizing the need for innovative government initiatives. A key proposal from one provider is the mandatory coverage for insurance with social protection features, which although not elaborated upon, typically refers to programs where risks are shared and managed by a government entity, similar to compulsory schemes. In terms of innovative contributions from the insurers themselves, they identified the development of new products, including the digitalization of insurance services, and enhancing insurance education and awareness as critical factors to increase the uptake of paid insurance. Finally, on the issue of collaboration between private and public sector, the responding providers indicated that partnering on insurance awareness and education would be most effective. Providers also noted that working together to enhance capacity, especially to increase the number of insurance specialists (i.e., professional underwriters, actuaries, data scientists, anti-money laundering and combating the financing of terrorism (AML/CFT) and fraud examiners, and cyber security specialists, etc.) would have a large and positive impact on the sector.

2.3.3. Capital markets – retail bonds

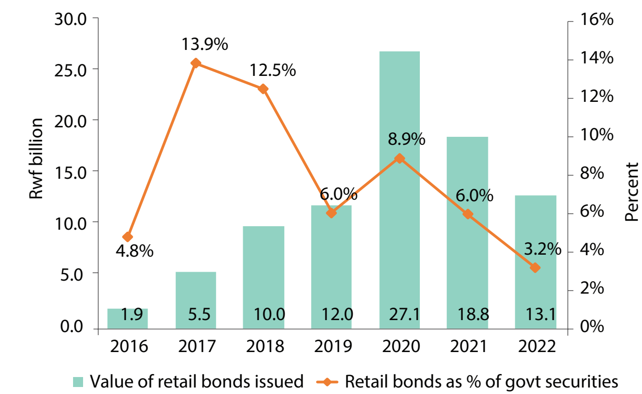
Capital markets are crucial for economic development, as they aggregate domestic savings and attract foreign capital for long-term investments. They channel surplus funds or the savings of companies and households into long term productive use by making long-term

investments through the issuance and trading of long-term securities. Governments also use capital markets to raise funds for various investment projects through the issuance of long-term bonds (Njenga, Machagua, & Gachanja, 2022). The result is to facilitate capital growth by mobilizing savings and converting them into investments, which in turn stimulates economic growth.

Despite the potential, in many emerging markets, capital markets are either underdeveloped or completely absent. A comprehensive study of capital markets in sub-Saharan Africa suggests several interventions that could facilitate the mobilization of domestic savings and which Rwanda could consider. The first such intervention is to strictly enforce the enacted laws, regulations, and rules governing capital markets to enhance the stability of the capital markets to increase investor confidence. Another recommendation is to incentivize investments by creating a continuous, stable, and conducive macroeconomic environment, specifically optimizing government debt to revenue ratio, inflation and public debt dynamics and thus spurring growth of the capital markets. Finally, countries should reflect on and implement prudent and comprehensive policies that support the development of capital markets (Njenga, Machagua, & Gachanja, 2022).

Recognizing the potential in capital markets, some countries are turning to retail government bonds as a means to mop up household savings from both local citizens and the diaspora. This is a good option provided that the savings mobilized are not being used to finance government deficits but rather represent the opportunity for savers to expand their savings portfolio, and with relatively risk-free assets. These bonds are government investments that offer variable, fixed, or inflation-linked returns. In Rwanda, the proportion of retail government bonds (RTBs) within total government securities has been at its lowest since 2016 (Figure 2.7). While Rwanda's rate stands at 3.2 percent, higher than South Africa's one percent, it falls significantly behind others like the Philippines, where retail bonds account for 34 percent of government securities. Rwanda saw a consistent increase in the value of its retail bonds from 2016 to 2020, but this growth reversed sharply in 2021, a change likely influenced by the COVID-19 pandemic.

Figure 2.7: Retail bonds as a percent of government securities

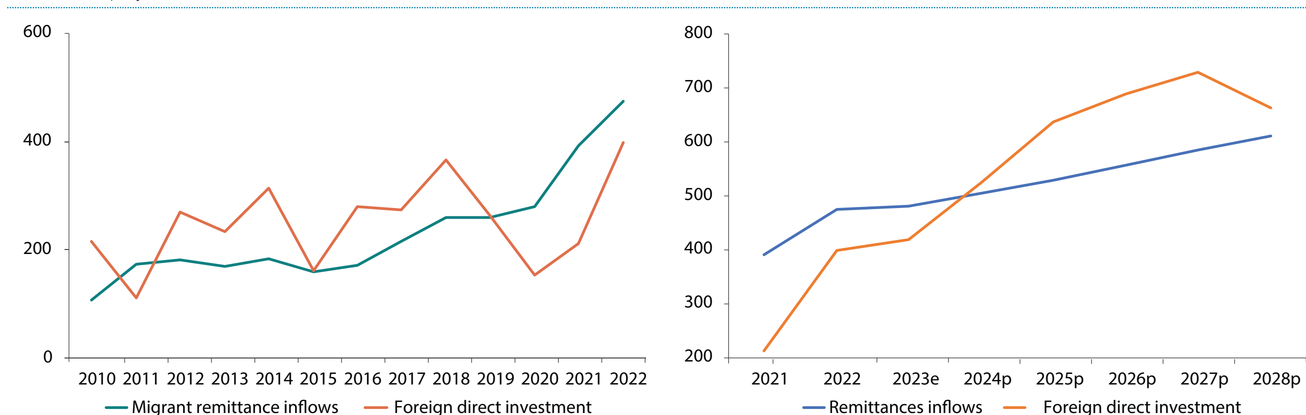


Source: BNR; World Bank; International Debt Management Symposium (2022).

Recognizing the effectiveness of RTBs in mobilizing savings, some countries have adopted firm strategic approaches to promote them globally, offering valuable lessons for Rwanda. For example, the central bank of the Philippines, in partnership with Philippine foreign service posts, periodically hosts virtual and regional RTB roadshows to increase investment. They have done these virtual roadshows in over 50 countries across six continents, including first-time interactions with diasporans in East Africa and South America. This resulted in diasporans in 53 countries investing in the RTB issuance in 2022. Brazil too launched a program in which very small ticket RTBs could be purchased (about US$6.00 minimum) with low and competitive fees, high flexibility (daily liquidity), and it included tools to compare with other assets. The product was wholly digital with imbedded chatbots/WhatsApp for user engagement, and later included an updated instant payment system. Number of investors rose from ~200,000 in 2014 to over 2 million in 2022 with a value US$19 billion equivalent, or 1 percent of GDP. Implementing a similar initiative in Rwanda, with care to absorb lessons from countries that have had success, would be a worthwhile endeavor.

Figure 2.8: Remittance inflows and FDI, 2010-2028

(US$ million projections after 2022)



Sources: World Bank (2010-2022 data) and IMF (2021-2028). The World Bank data are the most recent estimates from KNOMAD, June 2023. The IMF data are from the June 2023 staff report.

Rwanda's Capital Market Authority (CMA) and the Rwanda Stock Exchange (RSE) can play a significant role in mobilizing savings. For small business investment companies (SBICs), Rwanda needs to develop the legislative and institutional framework for SBICs that can utilize debenture financing to provide both equity and loan financing to small businesses (Sérieux, 2019). An option could be to create a government-owned company as a demonstration of the viability of the model, and as a path to financing strategically important small firm start-ups. Furthermore, CMA and RSE need to generate a more active commercial paper market to meezhort-term bank credit. Last but not least, CMA and RSE should continue to provide support, education, and encouragement to investment clubs, as they could be the substantial contributors to driving the awareness and demand necessary to increase savings.

2.4 Remittances: an increasing source of national saving in Rwanda

Like FDI, remittances can play critical role closing saving gaps in Rwanda.[12] Remittance inflows to Rwanda have risen sharply since 2020. Between 2011 and 2016, remittances were steady at around 170-180 million dollars, increasing to 280 million in 2020, and then growing very rapidly thereafter, exceeding FDI flows (Figure 2.8).[13] In 2022, these inflows amounted to about US$474 million,[14] equivalent to 3.5 percent of GDP, helping improve the current account balance. The IMF projects remittances to increase further over the next few years, reaching 582 million dollars by 2028.

It is not clear what has driven the rapid growth of remittances in recent years. The rates of growth in 2021 and 2022—nearly 40 percent and over 21 percent, respectively—far exceed the global average of 10 and 8 percent, respectively. They have also been among the highest in the region, though Tanzania and Uganda also experienced double-digit growth rates in 2022 (25 and 17 percent, respectively). As described in the most recent Country Economic Memorandum (World Bank, forthcoming), part of the increase in remittances might have been driven by the post-pandemic economic recovery and partly by the growing formalization of remittances and increased use of digital transfers.[15]

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[12] This section does not discuss FDI. The previous edition of the REU published in July 2023 focused on policy options to increase FDI and improve its inclusiveness in Rwanda (see World Bank (forthcoming).

[13] Globally, FDI flows tend to be volatile while remittances are more stable and rising steadily over time (Ratha, 2011).

[14] The World Bank estimate differs slightly from that of the IMF. The IMF's June 2023 staff report indicates that remittances inflows in 2022 were about 461 million dollars.

[15] An interview with the country manager of WorldRemit suggests that the surge in electronic payments–as much as 400 percent in 2021, according to the article–was made necessary by the lockdown during the pandemic. See: https://www.africa-press.net/rwanda/all-news/electronic-payments-in-rwanda-increased-by-400 The 2020 FinScope also reports that the use of digital payments grew from around 18 percent of adults in 2016 to 30 percent in 2019.

Nonetheless, there are indications that the surge in remittance inflows will likely be sustained in the near term, as several fintech companies that facilitate international money transfers have recently launched operations in Rwanda. These include Chipper Cash, a U.S. fintech company; Flutterwave, a Nigerian fintech company; and NALA Money, a Tanzanian fintech company (Kagire, 2023; Taarifa, 2023; Sabiiti, 2023). MTN South Africa is also expanding its operations in the region to offer remittance transfer services in several countries, including Rwanda.

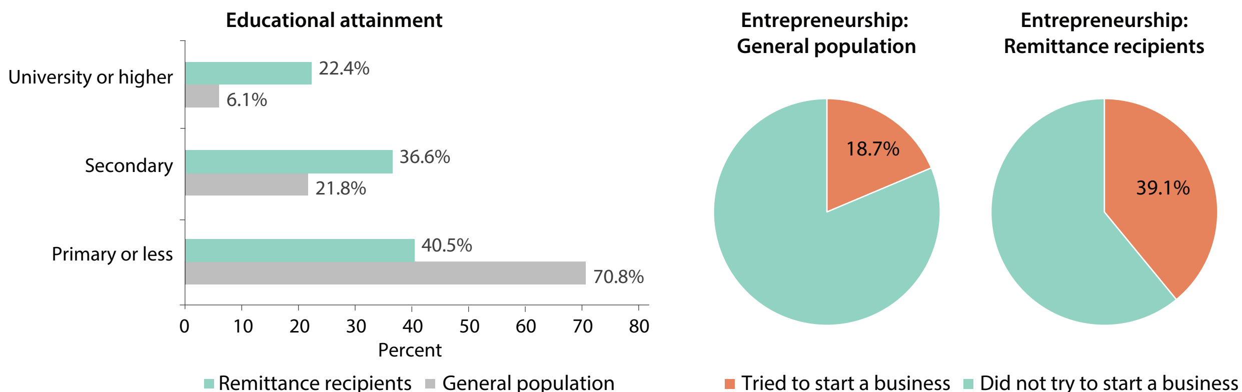
In stark contrast to the general Rwandan population, the profile of remittance recipients is urban, well-educated, and relatively affluent. Figure 2.9 and Annex Table 1 highlight these differences. The majority (70 percent) of remittance recipients live in urban areas, mostly in Kigali. They also exhibit higher educational attainment than the general population, with over 20 percent holding university degrees. Remittance recipients also often belong to higher income brackets, with nearly one-third earning over Rwf 300,000, indicating a concentration of remittances in wealthier groups. The trend aligns with global observations where remittances primarily enhance the welfare of recipients and lift them out of poverty, while inadvertently widening the income gap. This is especially true given that migration and remittance benefits are more accessible to wealthier, more educated, and skilled households.[16]

Remittance recipients in Rwanda demonstrate a greater focus on human capital investment and more pronounced entrepreneurship behavior than the general population. They allocate more to education and health, indicating an emphasis on long-term human capital investment. Their financial inclusion and literacy are evident in their being more likely to own a bank account, spend carefully, pay their bills on time, and closely monitor their finances—which suggests remittances are likely expanding the financial resources for development. Additionally, recipients show a stronger inclination towards entrepreneurship (Figure 2.9), which means they also contribute to job creation and help stimulate local economies.

Rwanda has taken important steps towards enhancing competitive dynamics and lowering the costs of remittances. This includes a unified licensing framework for digital remittance service providers (RSPs) and mobile money operators. This framework, by allowing for both inward and outward international remittance services, has boosted competition and reduced costs. Additionally, Rwanda's risk-based regulatory approach permits

Figure 2.9: Remittance recipients vs. general population: select characteristics compared

Remittance recipients are almost four times more likely to have attained university education and are over twice more likely to start their own business.



Source: WB staff calculations based on FinScope 2020 data.

[16] Migration often incurs high costs, which may exclude the poorest households, potentially intensifying inequality until broader access to migration balances the scale. This trend is noted by Adams (2011) and Andresson and Siegel (2020).

Electronic Money Issuers (EMIs) to set transaction limits, improving security and flexibility while adhering to AML/CFT standards (National Bank of Rwanda, 2022). Furthermore, the National Payment System Strategy (NPSS) in Rwanda encourages collaborations across the financial sector, including banks, MFIs, and mobile operators, fostering innovation and expanding service reach. The Bank of Rwanda's regulatory sandbox and the Ministry of ICT and Innovation's fintech strategy (2022-2027) further support this ecosystem, enhancing financial service quality, accessibility, and stability (MINICT, 2022).[17]

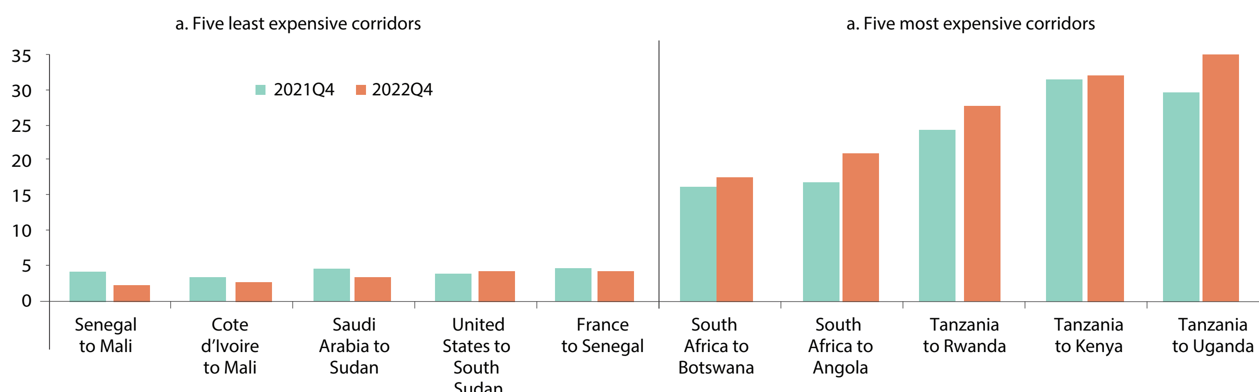
Despite important progress, the cost of remittances to Rwanda remains high. Remittance fees in Rwanda are among the highest in the world, over 20 percent in some corridors (Figure 2.10) (World Bank, 2023).[18] This need not be the case in East Africa—the East Africa Payment System (EAPS), for example, enables cross-border fund transfers within East Africa. Tanzania caps EAPS charges at approximately US$ 4—much lower than the minimum US$ 40 fee for Swift transactions. Yet despite its cost-effectiveness, EAPS has low usage, potentially due to limited awareness and banks' preference for more profitable Swift transactions.[19] As such, remittance costs remain high. Lowering fees to the world average (6.2 percent) or to the SDG target (3.0 percent) would mean freeing up millions of dollars of additional resources for development.

Already, the entry of more digital money transfer operators into the Rwandan market marks a positive step. These channels are substantially cheaper than traditional money transfer operators (MTOs), and, crucially, reduce the costs for other remittance service providers (RSPs). In addition, the UNCDF, under the leadership of Economic Commission of Central African States (ECCAS) and National Bank of Rwanda, is developing a roadmap for reforms to Rwanda's legal, regulatory and policy environments and to the financial and payment system to help promote the inflow of regulated remittances through affordable and accessible channels.

2.5. Policy levers to increase savings

This section provides an overview of the various levers available to national authorities as they work to stimulate domestic savings. Seven areas of interventions are explored: i) subsidies and incentives; ii) digital financial literacy; iii) the enabling environment for digital financial services;

Figure 2.10: Cost of sending remittances to African countries
(Cost of sending $200 or equivalent)



Source: Reproduced from World Bank (2023a).

[17] Our team extends its gratitude to the UNCDF for their expert advice and guidance on this issue.

[18] The weighted average costs could be cheaper, considering that digital channels and money transfer operators (MTOs) are significantly less expensive than banks (World Bank, 2023 Q1).

[19] We are grateful to the UNCDF's Migration and Remittances team for sharing their time and insightful contributions.

iv) gender-focused savings products; v) promoting customer centricity; vi) enabling innovation; vii) ramping up Ejo Heza; and viii) fostering remittances and diaspora engagement.

2.5.1. Subsidies and incentives

Countries worldwide have experimented with subsidies and incentives to boost domestic savings rates, but the outcomes of these measures are mixed. These outcomes often come with substantial costs and risks, including moral hazard and sustainability concerns. A review of 12 studies on health insurance interventions in low and middle-income countries (LMICs) evaluated the effectiveness of such subsidies in increasing insurance enrollment (Nigel & Yubraj, 2022). Granted that health insurance is only one type of insurance, and insurance itself is only one product that can impact savings, this study still had value given its analysis of incentives across several different studies. The review found that subsidies were the second most common intervention to increase insurance enrollment. The subsidies varied in amount, frequency, and timing, with a 50 percent subsidy being typical. Generally, subsidies positively affected enrollment; for instance, a 50-percent subsidy in rural Burkina Faso raised insurance uptake by about 30 percentage points. Indonesia's time-limited enrollment subsidies demonstrated how full and partial subsidies could enhance enrollment while attracting lower-cost individuals, thereby reducing adverse selection.

Rwandans continue to rely heavily on savings groups to save. While efforts are underway to both formalize these and to encourage savers to use banks and non-bank formal institutions, research in Rwanda has shown success in incentivizing greater savings for members of these groups (Global Communities – Partners for Good, 2020). Specifically, a study on how to catalyze household savings through incentives was conducted in 2017 and found that, with the introduction of incentives, 57 percent of households reported they were able to save regularly and 53 percent increased their contributions to the savings group. These results are noteworthy but also highlighted the need for further studies with modifications in the methodology and target groups to confirm the validity of incentives under broader conditions.

Rwanda is advancing its savings mobilization efforts with initiatives by the central bank; it should also look to adopt proven strategies from global markets to bolster its financial sector. The National Bank of Rwanda (NBR) has implemented incentives for savings mobilization, including a tax incentive for investments in treasury bonds and bills, reducing withholding tax from 15 to 5 percent. Additionally, there's no tax on bank savings, education insurance savings, RSSB-Employees Retirement savings, Ejo Heza, Rwanda National Investment Trust (RNIT) Fund, and other savings funds. Other potential incentives that have shown promise in different markets could be considered by Rwanda. These include discouraging investments in real estate while encouraging investment in real assets such as infrastructure, factories, machinery, etc. to boost economic growth. Encouraging banks to market long-term time deposits more aggressively could be achieved by offering them distinct lending options for such deposits. Incentivizing large firms to provide trade/supplier credit to client firms by allowing them to include the implicit cost of this credit in their operating expenses can make it more affordable. Finally, policies that encourage savings over consuming high-end luxury goods (whether imported or not), similar to strategies used in Mauritius and South Korea, can be effective. These policies not only make financial saving more attractive but also make non-productive alternatives like land (outside of agriculture, for example), buildings, and luxury goods less appealing (Sérieux, 2019).

For Rwanda, it will be crucial to consider how incentives and subsidies, while effective, must be balanced with the resource demands and potential for legislative challenges they bring. Though incentives and subsidies have been proven to yield results, they are resource intensive (both in terms of administration and funding) and sometimes require legislative action or political wrangling. As such, this avenue for domestic savings mobilization must be considered against a number of factors to determine the feasibility, timeframe, and priority. A good first place to start when considering whether to introduce incentives and subsidies—as well as how to sequence the same—would be to undertake a detailed study of the return on investment in terms of savings potential realized.

2.5.2. Ramping up Ejo Heza

Ejo Heza, recognized as a successful long-term savings model in Africa, has room for growth and optimization. Enhancing its reach and subscriber contributions could further embed a culture of savings in Rwanda. The Rwanda Social Security Board (RSSB) might consider several adjustments to Ejo Heza to achieve this. Firstly, allowing subscribers to access a portion of their funds in the short term—between 30 to 40 percent—while locking the remainder until the account reaches RF4m or the individual turns 55 could appeal to a broader demographic of savers. While borrowing against one's retirement funds reduces wealth accumulation in the long term, any reduction must be weighed against the increase in savers and savings resulting from the introduction of this flexibility. Secondly, there's potential to incentivize increased savings by raising the minimum threshold required for government matching. A World Bank survey suggested that 70 percent of respondents would save more if the threshold for government matching was higher (World Bank, 2023). Additionally, beyond this threshold, a more substantial government match could be the catalyst for larger contributions. Lastly, expanding coverage through mandatory contributions and using tax collection mechanisms could significantly boost participation in the scheme. For instance, redirecting a portion of VAT collections into Ejo Heza accounts could motivate savings, as indicated by 60 percent of survey respondents. Mandating contributions for higher-income earners in specific tax brackets could also be effective, with 68 percent of survey participants supporting such a mandate. These strategic moves could substantially increase the impact and effectiveness of Ejo Heza in cultivating a robust savings culture in Rwanda.

The authorities may also consider additional recommendations aimed at improving the design and functioning of the scheme. They include fixing the rate of return on contributions; indexing contributions to inflation but not more; implementing a single fund management approach to avoid incentive incompatibility; and introducing mandates for a minimum level of financing of domestic capital formation from fund resources. See Table 2.4 for more.

Ejo Heza holds the promise for mobilizing savings on a grand and national scale. However, it requires a rigorous approach to examining the impact and cost of various recommendations. Indeed, the number of recommended actions to be taken are quite numerous, and as such it will likely take some time and resources to see the desired impact in savings persistency and coverage growth. Notwithstanding this, the return on investment for implementing these measures makes Ejo Heza the core priority for action.

Table 2.4: Operational recommendations to further catalyze Ejo Heza
PS = Impact on Persistency in Saving, which is how long someone contributes
CG = Impact on Coverage Growth, which is the increase in members

	More broadly and consistently communicate the value of Ejo Heza:	PS	CG
1	Reshape the narrative on why people should save in Ejo Heza—steering away from incentives to highlighting prospects of a pension, and competitive and safe returns as in the formal sector	X	
2	Recognize and develop different targeting and communication strategies for urban/rural; USSD/ smartphone users; women/men, individuals with/without phones	X	
3	Create mini 'how to' videos that can be shared on WhatsApp/YouTube on how to register, contribute, check balance, and get enrollment information	X	
4	Engage with other aggregators who might have an 'observe and auto-deduct' capability especially in urban areas	X	X
5	Adopt a 'Tech with touch' motto to avoid excluding those with limited digital access (women, children, low-income members) and in vulnerable situations (after death or disability of a member).		X
6	Create 'digital contracts' using information at registration stage that can be accessed by members with a text and can serve as proof of membership	X	X
	Experiment with new business models and customer acquisition approaches:	**PS**	**CG**
1	Organize study tours with countries that have relevant experience to share		X
2	Adapt systems and build capacity to allow 'intermediary logins' to be generated at the district level		X
3	Hire a PR firm to work with the communications team to craft tailored and creative messages targeting children, urban workers, women, and youth (age 16-30)	X	X
4	Building a 'richer data set' by pulling variables from other government databases as relevant		X
5	Adding a question at time of registration such as 'Who helped you register'?		
6	Ensure that the drop down under 'Occupation' at the time of registration includes the same categories as Rwanda's household survey data to allow for easier mapping		X
7	Analyze panel data of participants with policy relevant questions in mind	X	
	Bolster interoperability with other government systems and integration with private sector:	**PS**	**CG**
1	Integrate Ejo Heza platform with banks, SACCOs, mobile money operators so that they can be intermediaries (similar to cooperatives) who register and collect contributions		X
2	Integrate the Ejo Heza system with the Rwanda Cooperative Agency to allow for sharing of 'real time' information on cooperatives		X

Source: World Bank (2023). "The Promise of Ejo Heza: A Brighter Future for All Rwandans."

2.5.3. Digital Financial Literacy (DFS)

The evolution of DFS provides substantial opportunities to deepen financial inclusion and encourage certain desired outcomes, such as greater savings mobilization. This fast-paced growth does, however, come with mounting consumer risks, exacerbated by demand-side challenges such as low awareness, low trust in DFS, and limited digital and financial literacy (AFI, 2021).

Rwanda's commitment to financial literacy empowers citizens to make sound financial decisions, yet there remains a gap in digital financial literacy amid the rise of fintech risks. BNR has developed a National Financial Education Strategy with the primary objective of equipping citizens with the knowledge, skills, and confidence to make informed, relevant, and timely financial decisions. A 2020 study in Rwanda showed a highly significant positive relationship between the literacy of a household head and their likelihood of having a savings account. Rwanda has several government-driven initiatives on financial literacy such as Access to Finance Forums; programs for empowering Rwandan youth with financial skills (School quiz challenges for secondary schools and Zala smart financial literacy programs for teenagers); and credit information system and micro insurance awareness campaigns. These are all valuable, but what is lacking is targeted education to improve digital financial literacy, particularly in midst of evolving consumer risks from fintech.

Building financial capability has wide-ranging consumer protection benefits across financial products. Despite this, a robust body of evidence reveals that, on average, conventional approaches to financial education—that is, financial-literacy events, training sessions, seminars, workshops, and classroom-based lectures—are mostly unsuccessful in sustaining behavioral change (World Bank, 2021). Emerging evidence suggests that key behavioral tools and practices, such as simplifying financial education into concrete, actionable steps, personalizing education, providing short, timely messages, and making education convenient and easy to access have improved consumer knowledge, decision-making, and financial behaviors. Considerations should be placed on implementing the required financial capability programs that will improve savings behavior but doing so with a view towards the most effective methods (both in terms of outcome and cost). This should be a high priority, undertaken in the short term, and should have a high level of feasibility, especially if coordinated with other financial inclusion and stability initiatives.

2.5.4. Enabling environment for digital financial services

Rwanda's high mobile penetration rate (86 percent), coupled with a young demographic (60 percent are below 31 years), positions the country advantageously for both advancing and benefiting from digital financial services. However, challenges persist, such as limited access to computers and the internet, with only 18 percent of Rwandans having such access in 2020. Obstacles hindering DFS adoption include a lack of awareness, unreliable service networks, unclear transaction costs, insufficient agent float, and agent unavailability. Notably, 28 percent of non-mobile money users cited the absence of transaction needs as their reason for not using these services. Furthermore, with 74 percent of the population residing in rural areas, the sparse distribution of access points restricts many Rwandans from utilizing DFS. In terms of financial literacy and confidence in engaging with financial institutions, the majority felt self-assured in 2020, with over 90 percent understanding the terms and conditions of their financial agreements. However, there are still significant gaps in financial literacy, especially in mathematical skills, understanding of financial concepts like inflation and interest rates, and calculations. Addressing these gaps should be a key focus in marketing DFS and developing digital financial literacy programs.

Digital financial services offer a means to reduce costs and improve the efficiency, security, and transparency of financial transactions, enabling the delivery of customized products to the underserved poor. To effectively break down barriers to saving product adoption from both supply and demand perspectives, countries have started to lay the groundwork for DFS. However, achieving sustainable growth and maintaining financial integrity and competitive markets necessitate a more comprehensive array of enabling conditions, divided into three main categories: a conducive legal and regulatory framework, supportive financial and digital infrastructure, and supplementary government support systems.

Policy makers must tackle essential challenges to foster a DFS-friendly environment, which includes ensuring widespread digital connectivity and mobile access. This involves considering whether to allow non-banking entities to use national payment systems and issue electronic money and determining the regulatory framework for extensive 'agent networks' to facilitate digital cash transactions. Additionally, the implementation of digital and biometric identification systems is crucial. Enabling access to government data platforms is necessary for integrating various services and ensuring a competitive DFS landscape. It is also essential to establish regulations for non-traditional financial service providers to maintain a level playing field and protect consumers while fostering innovation in the sector.

Box 2.2: Digital savings groups

In Rwanda, Tontines or community savings groups are widespread but face challenges in meeting members' demands for transparency and diverse financial services. Digital savings groups (DSGs) offer solutions by enhancing user experience and providing better transparency and efficiency.

1. Benefits of DSGs

DSGs grant users better credit access and simplify profit calculations, encouraging more savings. Real-time visibility of profits increases understanding and motivation for saving. Automation reduces errors and saves time, building trust. Digital recordkeeping and cashless operations improve fund security and can empower less dominant group members, although poor design can exacerbate digital divides.

2. User Experience

Traditional savings groups involve time-consuming cash handling and record-keeping, prone to errors. Digital solutions streamline these processes, saving time and reducing mistakes, but may introduce fees. Despite this, digital solutions can offer time savings and reduce theft risk. However, the adoption of digital methods may be slow due to costs and barriers like device ownership and digital literacy.

3. Consumer Protection

DSGs present scalable opportunities but also pose consumer protection challenges. Proper data privacy and security practices are crucial, with funds remaining under group control and solution providers ensuring robust security measures against data breaches. Strong encryption and adherence to data privacy standards are necessary to protect member data.

Source: SEEP Network, 2020.

To increase financial access and savings mobilization, the government should consider taking a holistic and firm approach to supporting its growth. Using the framework of the G20 High-Level Principles (HLPs) for Digital Financial Inclusion, the table below includes policy recommendations that can stimulate digital savings to increase domestic savings, particularly from the segments of the population that have tended towards lower savings rates (Table 2.5).

In Rwanda, current regulations prohibit non-bank e-money issuers from paying interest or sharing profits on e-money accounts, disincentivizing mobile savings. This practice differs from policies in several other countries where interest payments encourage mobile savings. For example, in Ghana, e-money issuers (EMIs) and banks have agreed on an interest rate for the float, which is comparable to that paid on checking accounts (around 1.5 percent). EMIs pass on a minimum of 80 percent of this interest to their customers, retaining 20 percent for themselves. This retained portion is often used for customer acquisition, as encouraged by the central bank. This approach has proven successful: from 2016 to 2022, MTN Ghana alone paid out approximately US$65 million in interest to over 15.7 million customers. In 2022, across all providers in Ghana, US$25 million was distributed as interest.[20] In Tanzania, the central bank mandated that the interest must benefit customers but it remained flexible on how. As a result, both Airtel Money and Vodacom M-Pesa share interest income on trust accounts in a similar way, although the amounts are calculated differently.[21] Finally, in Kenya the interest earned by EMIs is applied at their discretion. The outcome of this is that in each market interest is being calculated according to what works best for the market participants but is ultimately being used in furtherance of the uptake of digital savings accounts.

[20] CGAP, 2016.

[21] All Africa (2015). 'Tanzania: Vodacom to Dish Out Bonus to M-Pesa Clients'. See: https://allafrica.com/stories/201507271613.html

Table 2.5: High Level Principles (HLPs) to promote digital savings

HLP 1: Promote a digital approach to financial inclusion	Incorporate saving elements in national financial inclusion strategies. Highlight the importance of affordability, flexibility, accessibility, and customization in digital savings account offerings. Facilitate the integration of digital savings account options with government-to-person payments and encourage providers to offer options for earmarking portions of salaries for digital savings accounts.
HLP 2: Balance innovation and risk to achieve digital financial inclusion	Establish policy practices for enabling digital savings competition while facilitating cooperation and effective partnerships. Support a "multispeed" approach to digital savings inclusion, as some consumers may be ready to move beyond digital savings accounts to digitally enabled, market-based wealth-building products.
HLP 3: Provide an enabling and proportionate legal and regulatory framework for digital financial inclusion	Develop a legal and regulatory framework allowing banking institutions to pursue digital savings partnerships with nonbank entities and conduct limited purpose banking services through retail agent networks. Where appropriate, consider regulatory sandboxes for limited purpose, technology-driven digital savings account deployments. Harmonize, where prudent, the application of a risk-based approach to customer due diligence for e-money wallets and bank deposits, as imbalances can hinder the acquisition of digital savings customers.
HLP 4: Expand the DFS infrastructure ecosystem	Support the development of nonbank e-money issuer-to-bank interoperability, which serves as the technological backbone for digital savings partnerships and distribution strategies.
HLP 5: Establish responsible digital financial practices to protect consumers	Ensure customer funds protection standards are robust for bank deposits and e-money accounts. Ensure customers are afforded critical information about digital savings accounts at point of opening, noting that information sharing may occur unconventionally, such as directly on a mobile phone or through an agent-facilitated document collection process.
HLP 6: Strengthen digital and financial literacy	Incorporate saving elements in financial education strategies.
HLP 7: Facilitate customer identification for DFS	Continue to implement, refine, and expand national identification systems, and align know-your-customer requirements for basic transaction accounts and savings accounts.
HLP 8: Track digital financial inclusion progress	In cooperation with digital savings providers, gather and publish data on deposits facilitated through digital channels, as such information is critical for understanding digital savings opportunities and risks.

The shift towards fostering a digital-first approach to the financial sector requires a whole-of-sector reorientation which can begin immediately but may take time to crystalize. Given the increasing digitalization of financial services, this reorientation is a high priority and should have high feasibility given its minimal cost. This effort will, however, require significant coordination across public and private sector.

2.5.5. Gender-focused savings products

Women play an important role in managing household finances, from handling day-to-day financial needs to planning for both the future and emergencies. Women are more often better savers than men, making them key drivers of savings in any economy. This potential is often not realized, however, by women living in low- and middle-income countries where they remain disproportionately excluded from formal financial services. Semi-formal savings are common in Sub-Saharan Africa with approximately 50 million unbanked adults saving semi-formally. Of this, 35 million are women.[22] Some behavioral factors prevent women from saving formally. First, low-income women generally do not consider banks and most other formal financial institutions as the best place to save what they consider to be small amounts. More importantly, formal savings accounts often are less inviting to women by design. For example, women more likely lack formal identification or do not own a mobile phone, tend to live far from a bank branch, and would need support for onboarding and to effectively use savings products. They, as a consequence, cannot leverage the benefits of formal savings, either with financial institutions or via digital channels.

[22] Women's World Banking, 2023.

In Rwanda, prevailing social norms shape the financial experiences of women entrepreneurs, affecting their access to, use of, and gains from financial services. These norms dictate that women should put family before their business ventures, lack financial privacy from their husbands, and defer to men for financial management.[23] Such norms are not unique to Rwanda but are common throughout Sub-Saharan Africa. The expectation for women to prioritize family is deeply entrenched and varies by age, marital status, and location. For example, younger married women in rural areas often face more societal pressure to meet family needs than to invest in saving or expanding their businesses. Although it is socially acceptable for women entrepreneurs to seek loans from Financial Service Providers (FSPs) for business growth, this acceptance does not typically extend to starting new ventures. Additionally, there is an expectation for women to be financially transparent and to share property and income rights with their spouses. Despite a growing acceptance of shared financial decision-making, the prevailing belief in Rwanda is that men should control family finances.

Despite these challenges, women should still be encouraged to adopt formal savings products. These allow them to gain an entry point to the formal financial sector, provides safe, secure, and trustworthy places for them to save, and empowers them to better manage their financial lives and mitigate risks. By designing savings products that respond to the needs of low-income women, FSPs would make significant business gains—for example, they can acquire a new and relatively large customer base that is currently excluded, while tapping into inexpensive local currency funds which not only help to meet their liquidity needs but also to finance their on-lending activities. Once customers become acquainted with the basic products, FSPs can extend their offering to include more beneficial products for low-income women such as microloans, payments, and micro-insurance.

To capture this customer segment, savings products must be designed in a way that can tackle both the behavioral barriers and operational challenges as faced by low-income women. The first and possibly most important step is to develop a savings culture among women while ensuring that their small deposits are welcomed by formal FSPs. To provide continuing incentives to save, FSPs could consider a reward system may be used to encourage them to actively save, while slowly building the sense of discipline and competition. The rewards can incremental interest rates based on the size/tenure of deposits or be extended only to active savers. While the development, marketing and servicing of financial products is outside the direct sphere of influence of national authorities, requiring that providers submit sex-disaggregated data to the central bank and then conducting regular analysis would be a good first step to surfacing gaps that can be addressed by FSPs.

2.5.6. Promoting customer centricity

While the authorities have limited influence on savings products, there is still room for moral suasion and using the licensing process to drive products that encourage more savings. This is particularly relevant given that some Rwandan financial service providers that responded to a survey for this report expressed that there is a general lack of capacity in providers when it comes to developing mass market financial products and services. They recommended that the government support industry through capacity building. On way this could be done is by creating customer centricity programs such as the CGAP[24] Customer-Centric Guide, which is a collection of hands-on toolkits and experiments that helps providers design and deliver effective financial services for low-income customers. Customer centricity means putting the customer at the forefront of every decision while developing a product. It means understanding customers' situations, perceptions, and expectations and delivering products, services

[23] Access to Finance Rwanda, 2022.

[24] Consultative Group to Assist the Poorest.

and experiences that create customer satisfaction, loyalty and advocacy. This approach should have the outcome of increasing uptake and engagement with a given financial product. The importance of customer centricity in financial service product development is already recognized in Rwanda in the draft Rwanda Fintech Policy (2022–2027) wherein 'promoting customer-centric financial inclusion to drive economic and social transformation' is a national goal (MINICT, 2022).

As part of the product licensing process, Rwandan authorities may consider requiring providers to prove that their savings, pension, and insurance products have been developed using a customer centric approach. In addition, they should also respond to the needs of lower income and marginalized segments. Indeed, with the advent of digital banking, some central banks have mandated that providers seeking those licenses must prove that will further inclusion. For example, the Monetary Authority of Singapore (MAS) requires that digital banks "provide clear value proposition, incorporating the innovative use of technology to serve customer needs and reach under-served segments of the Singapore market." Similarly, in Malaysia, licensing requires that 'under Schedule 5 of the Financial Services Act or the Islamic Financial Services Act, an applicant is required to demonstrate to the [central] Bank's satisfaction a commitment in driving financial inclusion, including ensuring quality access and responsible usage of financial services, particularly to underserved and hard-to reach segments that may be unserved.' While it may be difficult to influence providers that are already operational, central banks do still have some leverage over new providers or products to ensure that these contribute optimally to the conditions for domestic savings mobilization.

Rwandese regulators are positioned to catalyze innovation in the savings sector while leveraging their authority to shape the market. At the very least, they may offer guidance to financial service providers on introducing more varied, innovative, and in-demand savings products; and at most, use strong moral suasion and their licensing mandate to influence the type and appropriateness of savings products in the market. These types of customer-centricity focused initiatives may take time to yield results, and even then, may depend on the extent to which financial service providers absorb the guidance. In addition, they may require some regulatory reform, soft power, and generally bringing about a change in industry overall. While the results may be fruitful in the future, they would certainly be difficult to assess in the short term.

2.5.7. Enabling innovation

Regulators worldwide face the challenge of fostering financial innovation while ensuring system stability—a balance vital for safe and sustained growth.[25] To achieve this, policymakers might adopt several strategies. Firstly, reducing or eliminating regulatory barriers can aid innovation. This includes creating a flexible regulatory framework that allows discretion in encouraging innovation, streamlining the product approval process, and providing regulatory certainty, such as clarifying the legal status of digital signatures and sales, as experienced in Ghana and Kenya. Secondly, enabling infrastructure is crucial. Developing national databases can provide a resource for providers to innovate effectively. In addition, regulators should proactively facilitate new business models through a 'test and learn' approach, utilizing regulatory sandboxes or waivers, and encouraging innovation by training, signaling, and communication with market players. Holding innovation contests and showcasing successful examples from other markets can also stimulate creativity. Lastly, addressing market structure constraints is important. Regulations should be designed to incentivize innovation and discourage market fragmentation and unfair competition. This might involve risk-based supervision and reevaluating the structure of insurance providers to prevent conflicts between life and non-life

[25] World Bank, 2020.

insurance services. Such comprehensive regulatory reforms and proactive measures can pave the way for a more innovative and resilient financial landscape.

Based on feedback received from a sample of FSPs in Rwanda that responded to a survey for this paper, it is evident that there is need for a more enabling environment for innovation. While innovation and product development are the responsibility of providers, authorities can play a role through regulation and supervision that enable a conducive environment for such innovation. One action already taken by government has been the introduction of regulation no 41/2022 of 13/04/2022 governing sandboxes for digital innovations or FinTech. As per the BNR website, eight different firms are participating in the sandbox as part of the first four cohorts. Other cohorts, some which are general, and others focused on insurance products, have application periods throughout 2024.[26]

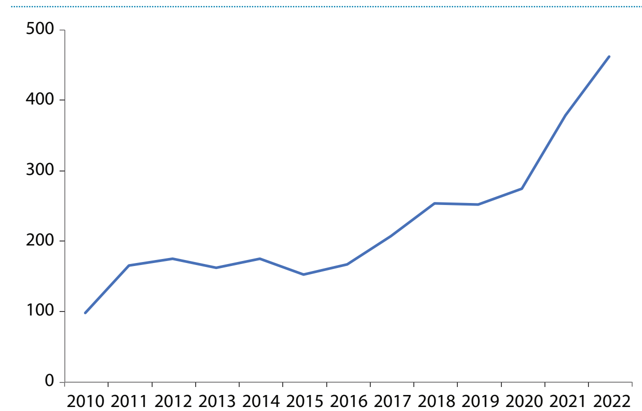
Across product classes, the financial sector in Rwanda is characterized by a lack of innovation. Aiming to address this, the BNR has introduced sandboxes to stimulate product development. The participants in the sandbox have products related to payments, crowdfunding, lending, remittances, and insurance brokerage. Unfortunately, there are no products focused on savings. Having a sandbox application cohort focused on savings mobilization could result in the necessary innovation. Efforts should also be made to encourage banks to partner with FinTech to pilot saving products in the sandbox given that currently it appears that banks and MFIs are not active in the sandbox.

2.5.8. Fostering remittances and diaspora engagement

Diaspora contribution to national savings can be improved by fostering their participation in domestic capital market. While several African countries like Kenya, Ethiopia, and Nigeria have attempted to utilize diaspora bonds, only two countries, India and Israel, have had multiple successful rounds. There are several reasons, including uncertainty about the country's ability to repay and doubts about the viability of the projects the funds are to be used for. As such, Rwanda may have to tread carefully if they chose to go down this path. Engagement with the diaspora to support financial sector may not require too much additional effort since the diaspora engagement is already part of Rwanda's other development objectives. Rwanda may start off with some initiatives that are low-hanging fruit such as allowing Rwandans without bank accounts to take advantage of domestic capital markets.

Figure 2.11: Value of inbound remittances

(US$ million)



Source: Brookings; BNR; World Bank.

The introduction of remittance comparison platforms–e.g., Monito—can help drive down costs through increased transparency and competition. For selected remittance corridors, these platforms provide information on the fees charged and exchange rates used by MTOs.[27] In addition to encouraging healthy competition by listing all available MTOs in a particular corridor, they also guide users toward choosing lower-cost options by providing clear cost disclosures from various providers.[28] Nakasone et al, (2022) are currently conducting a rigorous evaluation of the impact of these platforms on financial behavior.

[26] National Bank of Rwanda. Regulatory Sandbox Regulation. https://www.bnr.rw/laws-and-regulations/regulatory-digest-market-consultation/regulatory-digest/regulatory-sandbox-regulation/

[27] The IOM recently partnered with three such sites: https://weblog.iom.int/migapp-helping-migrants-save-comparing-money-transfer-options

[28] See the study by Appleseed (2009) conducted with five remittance service providers.

Box 2.3: Promoting savings through remittances and diaspora engagement

Target population: Salvadoran migrants from the Washington D.C. area.

Intervention: Study randomly offered migrants financial products with varying degrees of ability to monitor and control savings in bank accounts in their home country. Four treatment groups were established, each of which was offered one of four options:

- No new financial product
- A new account in someone's name in El Salvador, which could be used to remit funds; the sender could deposit but not withdraw or monitor withdrawals.
- A joint account between the sender and someone in El Salvador; the sender could withdraw and observe the account balances.
- An account opened only in the name of the sender.

Results: Migrants are more likely to open accounts and save larger sums if they are offered an account in their name only (Treatment 3). Treatment 2 also recorded a statistically significant uptake (but lower than treatment 3), as well as a substantial increase in savings.

By having greater control over savings accounts in their countries of origin, migrants increase both the holding of formal accounts and the balances accumulated in those accounts.

Source: World Bank; Brune et al 2011, 2016; Dupas and Robinson 2013.

Setting up remittance comparison platforms would require some form of financial regulation mandating the disclosure of fees and exchange rates used by money transfer operators to ensure transparency and fairness.[29]

Behavioral insights offer evidence that labeled or for-purpose remittances, earmarked for specific purposes such as education, encourage migrant workers to send more remittances. Remittance receivers in Rwanda are already allocating larger shares of their budget to educational expenses, hence lowering the fees could substantially expand the much-needed investment in human capital development (De Arcangelis at al., 2015; Rinehart-Smit et al, 2020). In addition, evidence from Indonesia highlights that enhancing financial literacy training for migrants and their families could amplify the already financially prudent behaviors of remittance receivers (Doi, McKenzie, & Zia, 2014). Some country systems require pre-departure training programs for migrants, including on financial literacy (Ang & Tiongson, 2023).

2.6. Conclusion

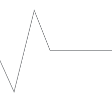
There are a number of conditions which, once optimized, can serve to increase savings. Most notable among these are the presence of a functional long-term savings scheme for the informal sector (Ejo Heza), a substantial and committed diaspora that can be tapped into the increase savings, and the improving access to formal financial services.

There are several levers that can be pulled which, in combination, can have an impact on mobilizing savings. These each have implications in terms of cost, timeline, level of coordination and the extent to which government has a direct impact on them. These considerations notwithstanding, Rwanda has many policy levers at her disposal to drive savings. On the demand side, there is significant space for women, the elderly and rural populations to be encouraged to further engage with the formal financial sector via the introduction of savings products that speak more directly to their needs. And on the supply side, providers have yet to demonstrate the type of customer centricity

[29] See, for example, the Dodd-Frank legislation in the US.

during product development that will catalyze significant uptake of new savings products. Also, which Rwanda continues to position herself as an innovation hub as it relates to ICT, innovation in the financial sector still lags and more can be done to establish a 'digital first' approach to financial transactions.

There has been a draft savings mobilization strategy which was not formalized, as well as several reports focused on how domestic savings in Rwanda can be increased. Consolidating these various efforts into a clear, firm, and economy-wide initiative to increase savings—with commitments from both public and private sector to take action—would likely yield measurable results in the short and medium term.



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ANNEX TABLE 1. MATRIX OF KEY POLICY RECOMMENDATIONS

The following is a matrix highlighting the priority policy actions recommended for authorities in Rwanda:

#	Action	Short- vs Medium-Term (ST vs MT)	High vs Medium Priority (HP vs MP)	High vs Low Feasibility (HF vs LF)
1	Ejo Heza: Allow short-term access to a portion of funds saved in the scheme	ST	HP	LF
2	Ejo Heza: Increase the minimum savings level to be eligible for government incentives:	MT	MP	LF
3	Ejo Heza: Scale up coverage through mandates and aggregators	MT	HP	HF
4	Ejo Heza: Improve and ramp up communication and mobilization to reach new subscribers	ST	HP	HP
5	Ramp up digital and financial literacy initiatives around savings	ST	HP	HF
6	Create an enabling environment for digitally enabled savings, insurance and pension products	ST	MP	HF
7	Enable innovation through regulatory reform and mechanisms such as sandboxes	ST	HP	HF
8	Engage Rwandan diaspora to subscribe to government retail bonds	MT	MT	HF
9	Update licensing requirements to encourage the development of more appropriate savings products	MT	MT	HF
10	Accelerate the digitization of savings groups and linking of savings groups to formal financial institutions	ST	HP	HF

ANNEX TABLE 2. SUMMARY OF CHARACTERISTICS OF REMITTANCE RECIPIENTS IN RWANDA

Characteristic	Total Population (%)	Remittance Recipients (%)
Urban Resident	25.92	69.27
Sector of business ownership*		
Agriculture	3.58	2.02
Industry	0.48	0.39
Services	9.17	19.63
Female Head of Household	14.50	19.48
Educational attainment		
No Formal Education	18.77	6.43
Primary Education	52.05	34.08
Secondary Education	21.77	36.6
University or Higher	6.07	22.35
Vocational Education	1.22	0.55
Annual Income (Rwf)		
12,000 - 30,000	16.79	3.16
30,001 - 80,000	20.56	25.33
80,001 - 200,000	33.66	21.74
More than 200,000	29.00	49.77
Poverty		
Below the poverty line	42.57	15.26
Often skipping meals	24.17	6.43
Financial Behavior		
Always Carefully Consider Purchases	61.46	68.07
Always Pay Bills on Time	26.79	40.98
Always Keep an Eye on Finances	37.55	50.46
Income Often Not Covering Living Costs	44.22	31.92
Use of Financial Products		
Bank Card	52.24	67.62
Savings Account	60.35	64.93
Registered Mobile Money User	55.05	89.62
Tried to start a business	18.66	39.05

*Note: * The percentages listed for each sector (agriculture, industry, services) represent the proportion of all adults, not just business owners. Individuals can also be involved in more than one sector. The totals for each sector thus do not add up to 100%.*

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