

## **Rwanda: No Sustainable Growth Without a Savings Culture-Minister**

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### INTERVIEW

Kigali — *Government has launched an ambitious strategy that seeks to promote a savings culture among Rwandans. The fundamental aim is to mobilise resources for investments in both public and private sector to enable the country maintain a stable macro-economic growth. Minister of Finance and Economic Planning, **James Musoni** provides more details about this new strategy in this interview.*

### **Minister, recently cabinet passed a number of key economic development strategies. Can you briefly inform us about those strategies?**

Yes, Cabinet adopted recently three major strategies in line with EDPRS and Vision 2020, and those strategies include:

First, the National savings mobilization strategy aimed at increasing the domestic savings up to the level necessary to match the required level of investment. The strategy also presents the analysis of the potential of domestic savings, key issues for savings mobilisation and provides an action plan on how to achieve this.

Second was the UMURENGE SACCOS STRATEGY. This strategy explains what a SACCO is--what are its major characteristics and roles, related advantages and specific challenges. It recommends developing a successful SACCO model in line with national policies and international best practices.

At least 416 SACCOS have started with Rwf1.7bn pledged by SACCO members in form of share capital. Responsible institutions were given specific tasks (RCA, BNR, FSDS and MINALOC). The operational budget was agreed upon where the GoR will cover 80 percent in first year, 50 percent in second year and 30 percent in the third year of operating costs. Recruitment of SACCO's staff is underway, BNR has started receiving files requesting for licenses. Rwanda Cooperative Agency is assigned to carry out capacity building for SACCOS and sensitization program is in progress.

The third strategy is the SOCIAL SECURITY POLICY. For many years, diverse social security programs have been developed in Rwanda, but although Rwanda already has the core elements of a comprehensive social security program in place, substantial gaps remain, mainly caused by the lack of general orientation based on one common vision, as well as the lack of coordination for actions towards complementary objectives.

This justifies the urgent need for a national social security policy which will be the framework for such coordination and which will provide all necessary orientation. The objectives of this policy would be twofold: To analyze the current social security program and to identify the gaps in different areas in order to propose how to improve the program, with an ultimate goal to provide for all Rwandan population adequate protection against the adverse consequences of various "life cycle" events and risks. To provide a framework for narrowing the social security gaps for the poor Rwandan households particularly affected adversely by life cycle events and risks, and eliminating them overtime as economic circumstances.

Draft Law on the Collective Investment Schemes in Rwanda was approved by the Cabinet in August 2009 and it is now in the Parliament. The establishment of Collective Investment Schemes will enhance the level of national savings and also strengthen professionalism into the financial sector in Rwanda. There's also a draft Law on the Capital Market Authority in Rwanda whose overall aim is to provide an environment for a fair, secure, transparent, orderly, and efficient capital market.

Before we go into more details, we would like to understand more about the role and the importance of savings for our economy: The task of poverty alleviation and meeting the Rwandan 2020 vision targets requires maintaining around 8 percent annual growth over next 12 years. This needs substantial investment both in public and private sectors. Funding this increased investment requirements through mobilisation of savings nationally is the focus of this strategy. The EDPRS has set a target of achieving a gross national savings of 18 percent of GDP to attain a gross national investment target of 30 percent of GDP.

### **What is the current status of savings in Rwanda?**

For the last five years, our Gross Domestic Savings/GDP ratio has been consistently negative, varying in a range between -1 percent and -3 percent GDP. However, thanks to net positive transfers, our Gross National Savings grew significantly to be around 13 percent today.

We are not very far from our EDPRS Savings goal which is 18.4 percent of GDP by 2012, but we have to keep in mind that relying on external resources is not sustainable, and that EDPRS projection are conservative. A good ratio of national savings to sustain an economic revolution should be around 25 percent, with domestic savings of around 20 percent.

### **What are the major issues hampering savings mobilization in Rwanda?**

Little capacity to save as a result of little income. In addition to this some of our people have still an anti-savings mentality and consider that consuming today is more important than planning for the future (amavuta y'umugabo ni amuraye ku mubiri); we had so far the lack of a savings mobilization policy, with the sectors of pension, insurance, housing, leasing being poorly developed and poorly coordinated. Finally the weaknesses within our financial sector is another hindering factor. Our institutions have yet to develop capacity to design and to propose to the market appropriate, effective and innovative savings products, etc.

### **Do you think Rwandan economy will be able to respond positively to an important effort to mobilize savings massively?**

Rwanda has a good track record in recent years of maintaining a stable macroeconomic environment, characterized by high growth rate with low inflation. However, recent developments in international financial and commodity markets have increased the risks to the macroeconomic stability, particularly the risks of inflation and negative impact on savings and investments.

Recently interest rates had also gone up in order to pursue tightened monetary policies. We are taking appropriate measures to create an environment with moderate inflation accompanied with positive interest regimes to help mobilisation of savings. Our savings strategy is based on six major pillars and those are: macroeconomic stability, development of institutionalized savings, expansion of the financial infrastructure and intermediation, development of secure and diversified means of savings, building capacity and efficiency of intermediation, and increased awareness of tangible benefit of savings.

### **Did you analyze success stories to learn good lessons from them before you designed the new strategies?**

Yes we analysed and learnt a lot from good examples from different continents, where the efforts to mobilising savings have generally been proven to be successful. Examples from countries, such as India, Ghana, Ecuador, Bangladesh & Singapore have been analysed to learn pertinent lessons. All of these countries have utilised savings mobilisation to encourage their economic development. In these countries, the savings mobilisation policies and programmes have been used in close conjunction with legislation and policy reforms.

While each country is different and its experiences unique, there are consistencies in each case that translates borders. These lessons are: innovations, access, competition, increased customers' choices and strengthening of financial system.

**You talked about diversified means of savings. Does the strategy propose innovative savings products adapted to Rwanda?**

Yes, the strategy proposes a number savings products and instruments of different categories. The product recommended will help the service providers to diversify the options for savers and allow for more access to services. The proposed products include Prize Bond, Monthly Deposit Scheme, Monthly Income Scheme, savings products targeting special groups such as women, children and others.

Some new Government issued savings instruments have been recommended to cater the needs for individuals, groups, as well financial service providers. These instruments can also have features to protect savers from rising inflation. A number of special products have also been designed keeping the needs of Diasporas in mind. Finally the strategy recommends the creation of specialized unit within Minecofin to develop those products, to promote them, to educate about them, and to pilot test them until they are adopted by the market

**What will be the specific role of UMURENGE SACCOs within this framework?**

Government has committed to provide support for the creation by the population of at least one SACCO per sector. Government will sensitize, help to mobilise the population, provide support for capacity building programs, and for initial operating costs until SACCOs will be self- sustained. This strategy will need very careful coordination, regulation and supervision and all measures for this are already in place.

**You mentioned the issue of regulation and supervision. Which guarantees will be given to the depositors that their savings will not be wasted, stolen, poorly managed, embezzled, etc?**

A number of regulatory measures are being put in place, with BNR playing a key role. A transparent system will help the different entities to understand their respective roles and be complementary to each other. The privately owned banks and other deposit taking financial institutions will be adequately controlled to ensure the safety of the deposit. A reasonable level of supervision will be put in place. At the same time, the capacity of the financial institutions and other service providers will be highly developed

**Any final remarks?**

It is quite important to always remember that there is no development without economic growth, no growth without investment, and no investment without savings. The savings strategies we are committed to implement are the foundation of our economic development. They are in the interest of everyone, and everyone has a role to play. Government's major roles are policy making, creating an enabling environment, education and capacity building, and overall coordination. We shall take all necessary steps to enable all economic agents to play their respective roles, for the development of everyone.