



With



Rwanda Financial Diaries: Understanding the Financial Lives and Product Needs of Rwanda's Underserved Consumers

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Executive Summary

FinScope 2012 provided Rwanda's financial sector with a broad map of financial access and usage trends across the country's adult population. This Financial Diaries research—commissioned by Access to Finance Rwanda (AFR) and Visa Inc. (Visa)—sought to complement these findings by taking a deeper look at individual consumers' behaviors and motivations to better understand the drivers of the trends we observe in FinScope. Financial Diaries, the research methodology that generated the insights of *Portfolios of the Poor*, closely track the financial behaviors of a small sample of different individuals selected purposively from different inclusion and poverty levels. The research team visited 59 individuals weekly for eight weeks, capturing all cash flows and piecing together over that time a much richer picture of financial behavior and gaps in the financial service needs of the respondents.

Analysis of collected data highlighted a number of key findings:

1. Access—in terms of physical distance, means of identification, and cost of services—is not the main barrier to effective financial inclusion in Rwanda. Rather, formal institutions must become more relevant in more areas of people's lives. Today formal institutions are used for **big money** needs, such as large loans and the receipt of large payments. Formal providers are viewed as the best option for these purposes, but even then, service quality is below expectations.
2. Underserved consumers are **active money managers**, using an average of 5.5 financial devices per person and mediating funds very actively through those devices. Respondents in Ubudehe 2 mediated an average of 295% of their incomes through financial devices.
3. Informal devices are cornering the market for **many other needs**, even for wealthy and well-educated consumers. These needs tend to be higher frequency and lower value than those mediated through formal providers. Still, informal products are not working as well as people would like. They fall short on privacy and reliability.
4. Consumers are looking for financial devices that help them—even with unstable, small, and irregular incomes and in the face of substantial risk—achieve fundamental **life goals**:
 - Owning and maintaining a secure home;
 - Feeding the family;
 - Educating children; and
 - Acquiring income-stabilizing assets like cows and rental houses.
5. Rwandans are working to advance towards these goals and **prevent backsliding** during their steep upward climb. Financial devices can be the hooks that help them climb and hold their ground. Formal financial services seem to be doing a good job of providing big money boosts

that help people move ahead, but are neglecting the importance of the devices that serve day to day needs, helping people hold their position and cope with the relentless threats to their financial success. Here, imperfect informal financial services appear to be the only options.

6. By appreciating these common financial needs and understanding shortcomings in people's current strategies for meeting these needs, several **opportunities** emerge for financial institutions to introduce attractive new products and service improvements that address the industry's relevance challenge. We propose five new product concepts based on these findings.
7. There is also quite a lot of space for innovation **beyond products** in order to:
 - a) Improve service quality to retain clients;
 - b) Market features and capabilities of existing products; and
 - c) Consider regulatory changes that better facilitate innovation around inclusion.

Access barriers—such as distance, cost, identification—to the uptake of formal financial services have been largely tackled. Rwanda's financial sector must now find ways to provide value to clients beyond the traditional sweet spots of big money payments, storage, and loans. This has led to formal institutions being used only intermittently for a set of needs that are only occasional. Rwandans are already active money managers, but their informal devices are not serving them very well in meeting their financial needs. The financial sector can overcome its relevancy challenge by introducing innovative products that respond to ordinary people's real needs. Product and service-level innovations can deliver win-win solutions for consumers and the financial sector.

Acknowledgments

Projects like this are not possible without the generous contributions of time, patience, and openness provided by respondents. We are grateful to them for sharing the details of their lives with our team. We would like to thank the Local Government Administration for facilitating our work in our field locations. In order to protect respondent anonymity by location, we cannot thank each by name, but they provided very valuable assistance throughout the project. We would also like to acknowledge the hard work, patience, flexibility and insightfulness of our dedicated field team—Andrew Tushabe, Allan Kagenza, and Kabera Télesphore. Ivan Murenzi of Access to Finance Rwanda and Mark Pickens of Visa Inc. also provided invaluable guidance for this project.

About the Sponsors

Visa Inc. (Visa) is a global payments technology company that connects consumers, businesses, banks and governments in more than 200 countries and territories, enabling them to use electronic payments instead of cash and checks. In Rwanda, Visa has launched mVISA, the world's first interoperable mobile banking solution geared to meeting the needs of underserved consumers.

Access to Finance Rwanda (AFR) is a fund initially sponsored by DFID and the World Bank to help more people and small businesses achieve greater and more effective access to a deeper financial system in Rwanda. AFR funds a wide variety of initiatives and investments in the financial sector using grants, loans, subordinated debt and other instruments supporting financial inclusion, with a particular focus on rural and poorer communities as well as micro and small enterprises.

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Notes and Terminology

Exchange rate. At the time of this study, on average US\$1=RWF 630. As much as possible we have provided in text conversions for readers.

“Ikibina” is a local word referring to savings groups. We have broadly classified these groups into two types:

- *Rotating Savings and Credit Associations (ROSCAs)* have members who meet regularly to contribute usually a fixed amount of money to the group. Members take turns with 1-2 members taking the entire pot of contributions on their turns.
- *Accumulating Savings and Credit Associations (ASCAs)* contribute to a group fund on a regular basis in fixed or flexible denominations. This pot of savings grows over a period of several months, and members can sometimes borrow from the internal fund, repaying with interest. At the end of some period, the funds are disbursed back to members.

“Mutuelle de santé” or “Mutuelle” refers to a government health insurance programme.

Ubudehe Category. We make frequent reference to “Ubudehe category,” a ranking of welfare groups in Rwanda from 1 (lowest, destitute) to 6 (highest, wealthy).

Inclusion Strata. We stratified respondents into different inclusion strata during screening to be sure to cover a range of financial inclusion experiences in the sample. These stratifications were based on the following:

- *Actively Banked:* Has a bank account and uses it actively (at least once per month and considers it important)
- *Underbanked:* Has bank account, but does not use it often (less than once per month, but usually much less than that)
- *Informally Included:* Has semi-formal account at a SACCO, MFI, or cooperative or participates in organized savings group.
- *Excluded:* Does not use any organized financial devices and instead relies completely on informal and independent services, like saving in the house and taking credit from shops.

Confidentiality is important to our respondents who share intimate details of their personal lives with us for the purpose of this research. To protect their identities, we have changed their names and do not provide identifiable photographs.

1. BACKGROUND

In August of 2012, Bankable Frontier Associates (BFA) and Ntare Insights were commissioned by Access to Finance Rwanda (AFR) and Visa Inc. (Visa) to conduct research that would reveal a deep understanding of financial management across several prototypes of underserved Rwandans across rural and urban settings, different income sources, various ages and levels of interaction with formal financial services. The two goals of the project were to:

1. **Fill an important gap in current understanding** on how low-income families are making ends meet. This project would go beyond the high level trends revealed in FinScope 2012 and help tell the deeper story behind why we see those trends.¹ We would bring to life the stories behind the data to have a better understanding of what is driving consumer financial behaviour.
2. **Inform solutions** in the form of better financial products and policies to improve people's economic lives & make financial sector more relevant to Rwanda's consumers. By improving understanding of consumer behaviors and needs, we can recognize opportunities for formal financial sector providers and policy makers to improve offerings available to meet the needs of the low-income market that present win-win opportunities to improve consumer well-being and create growth opportunities in the sector.

2. METHODOLOGY

Bankable Frontier Associates (BFA), under the guidance of Daryl Collins, co-author of *Portfolios of the Poor*² and originator of the South African Financial Diaries, has developed a very detailed methodology for capturing daily cash flows of households to generate deep insights on how low-income households manage their money. That methodology—currently deployed in five countries—is quite resource intensive. In Rwanda, we sought to modify and lighten the methodology by targeting a small sample for just 2 rather than 12 or more months and by using a more generic data collection instrument. We sought to capture the full portfolio of instruments used and cash flows over this time while also exploring costs, risks, implied returns, the lumpiness of income and expenditures over the course of the year and why instruments are used and not used.

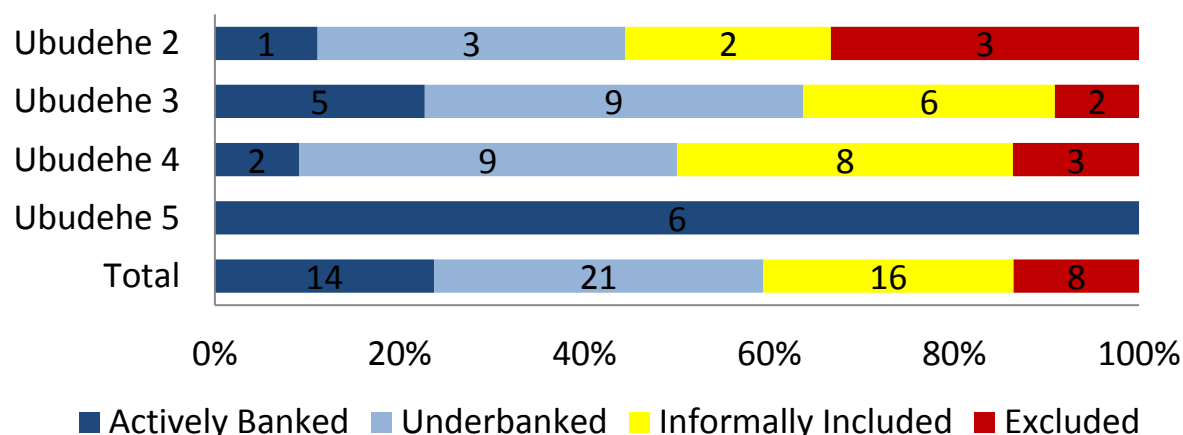
¹ Access to Finance Rwanda. FinScope 2012. Dataset as provided by Ivan Murenzi 27 December 2012. Summary Report available at <http://www.statistics.gov.rw/publications/finscope-survey-report-2012>

² Collins, Daryl, Jonathan Morduch, Stuart Rutherford & Orlanda Ruthven. *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*. Princeton University Press, 2009, ISBN 978-0-691-14148-0, 320 pages. <http://www.portfoliosofthepoor.com/>

2.1 Sample

The sample for all Financial Diaries projects is much smaller than typical population-representative surveys. Our intention is to dive deep with different types of people rather than track trends that can be statistically extrapolated. With this in mind, we selected two areas of the country for the research: one on the outskirts of Kigali and one more rural in Eastern Province. We then set targets for the types of households to include in the study based on their economic status (primarily Ubudehe³ category), financial product usage, and income patterns. We aimed to achieve diversity in a sample not unlike FinScope, but partially skewed towards segments where there may be more opportunity for service providers to intervene (see Figure 1).

Figure 1: Rwanda Financial Diaries sample by ubudehe and inclusion status.



Within each household, we also selected individual respondents where there was more than one eligible adult. If there were more than two, we selected for diversity, this time trying to achieve a spread across the “personas” identified in Visa’s previous Financial Lives project. In total 59 adults were included in the sample.

2.2 Methods

We began the project with a detailed enrolment interview for each household and the individuals inside of it. This provided a comprehensive look at historical annual income, demographics, and provided a baseline understanding of asset ownership and financial product usage and balances. Every week thereafter for 7 more weeks, we visited and captured the sum of all inflows and outflows through the income sources and financial devices already established (and new ones as they began) of money through a process we call “cash flow reconciliation.” Incomes are inflows, expenses are outflows. For

³ Ubudehe category is a designation made by the government of Rwanda to classify households by ranking of welfare status from 1 (lowest, destitute) to 6 (highest, wealthy).

financial devices when one makes a deposit, that is an outflow, and withdrawals are inflows to the respondent. These designations help us check for comprehensiveness, because, when all cash flows are accounted for, the sources of funds equal the uses of funds (See **Figure 2**).

Figure 2: Example of cash flow reconciliation.

SOURCES OF FUNDS		USES OF FUNDS	
<u>Cash on hand beginning:</u>	8,000	<u>Expenses:</u>	
<u>Income:</u>		Food	14,000
Casual Jobs	4,000	Haircuts	600
Gifts	6,000	Soap, lotion, etc.	3,400
Small business reselling avocados (revenue)	8,000	Stock for business	6,000
		<u>Financial Outflows:</u>	
<u>Financial Inflows:</u>		Deposit--savings in house	2,000
Withdraw--savings in house	500	Repay credit at shop	800
Take credit from shop	1,000	<u>Cash on hand at end:</u>	700
TOTAL SOURCES	27,500	TOTAL USES	27,500

Also on each visit, we complemented this cash flow reconciliation with a supplementary data collection tool to deepen our understanding of the individual's financial life. Supplements included:

1. **Transaction costs:** Examining the time and money costs expended by respondents in order to access the financial devices that they use.
2. **Yields and losses:** We documented the negative experiences, losses, and, where possible, yields that consumers have experienced historically when using different financial strategies, including informal strategies like saving through livestock.
3. **Participant photography:** To provide a non-directive lens to understand respondents' views about savings, financial stress, and financial success. Respondents took photos over three weeks to initiate conversations on their views of these three topics.
4. **Qualitative closing interview:** To connect observed behavior with respondents' motivations and to understand financial management objectives looking into the future.

5. **Actual institution account costs:** Separately from interviews with respondents, we visited all the nation’s banks, four SACCOs, and two mobile money providers to collect data on actual costs of operating a basic transactional account.

The result is not just a picture of which financial devices and products are used at different institutions, but also a very deep understanding of individuals’ financial behaviors. We observe their choices and habits of how they manage their income and utilize the financial devices in their portfolios. Alongside this, we are able to capture data that helps us understand the motivations and contextual realities driving those behaviors.

Box 1: Different roles for Financial Diaries and FinScope

Financial Diaries vs. FinScope

Financial Diaries and FinScope are quite different, but complementary research methodologies that together give both a deep and a broad picture of financial management patterns in the country. FinScope is a national survey representative of the population. Because the researcher visits only once and must use a very structured survey tool, we don’t learn a lot of detail about each respondent, but rather see broad behaviours and trends. We can tell, for example the percentage of people across the country who are using a bank account. Financial diaries instead samples purposively in a small sample and seeks to tell the story behind the trends we observe. We can answer questions like, “How do different types of people actually use their bank account? How does the size of savings in a bank account compare to that generated through savings groups? We can see how the financial devices are used in the context of complex income earning patterns and to meet financial needs as they arise. Repeat visits build respondents’ understanding of our research interests and their trust in our research team, helping us get a more complete picture of each person’s financial life visit after visit.

Through this process, we gain a deep view of individuals’ financial portfolios, behaviors, and perceptions. By visiting over time, their stories become clearer in the context of their household and community setting. For example, consider what we learned about “Eve” (Box 2). With such rich detail on a sizeable number of respondents, we begin to make sense of the complex financial lives of the consumers we study.

Box 2: Example of the depth of understanding diaries reveal

“Eve” is an unmarried 28-year-old avocado trader classified in Ubudehe 3. She is the main income earner, taking care of the needs of her mother and several younger siblings. Eve has a bank account, and is one of very few respondents with an ATM card, which she appreciates for the convenience it offers her as she manages her avocado trading business. Still, most of the time she transacts in cash. Eve has a client each day of the week. They come with working capital in cash, which they hand over and let Eve buy as many avocados as she can. She tops this up with whatever cash she has on hand and the buyer buys everything Eve can pull together. The buyer then transports the products back to Kigali. Eve’s profit margin is about 3%, which leaves her with about RWF 81,000 (US\$129) per month to support her family’s needs. While her personal income may be small, she manages large amounts of money in her business. 98% of her expenditures are on stock. She says she could only expand her business if she had an independent source of capital to buy up avocados on non-market days. As it is, she can only buy in bulk when her clients arrive with cash, and she can only manage one client per day at current supply levels.

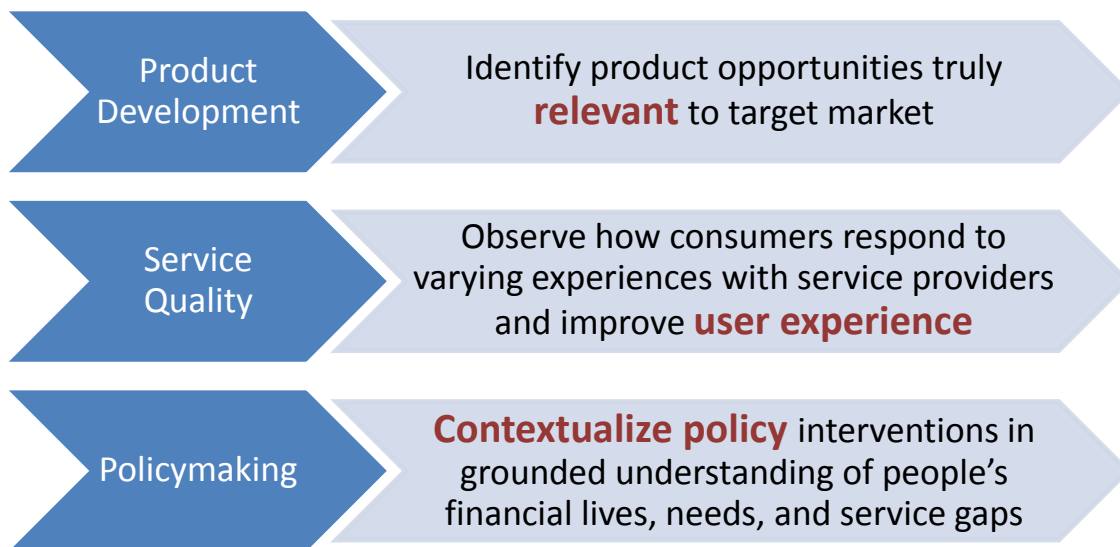
Eve is willing to try out new financial services, like mobile money and Quick Cash ATM transfers. But, she had a bad experience with the latter. A client tried to send her money, and after three failed PIN attempts, the transfer was reversed. The money took 3 days to complete the reconciliation, and she was left without being able to complete an order. It jeopardized a precious client. Eve isn’t willing to try it again.

Eve first opened her bank account when she lost money in one of her informal savings clubs. She wanted to save on her own, and she used this account to save up RWF 240,000 (US\$381) for her brother’s wedding. For the wedding, she withdrew everything. Now, she’s not using the bank very much. She’s joined a more “secure” savings group, where members are required to put up collateral to participate and all the members have similar income patterns, all being traders in the local market. She’s willing to travel quite a distance to be a part of this group. She spends about RWF 1000 (US\$1.58) on transport to go and make her RWF 2,500 (US\$3.97) contributions each week.

Figure 3: Eve’s balance sheet

Assets	RWF	US\$	Liabilities	RWF	US\$
Bank Balance	7,000	\$11.11	Loan from a group	7,000	\$11.11
House Balance	3,550	\$5.63			
ROSCA Balance	75,000	\$119.05			
ASCA Balance	6,600	\$10.48			
Debts owed to respondent	2,000	\$3.17			
Total financial assets	94,150	\$149.44	Total financial liabilities	7,000	\$11.11
			Financial Net Worth	87,150	\$138.33

Figure 4: Application of Diaries Findings.



3. FINDINGS

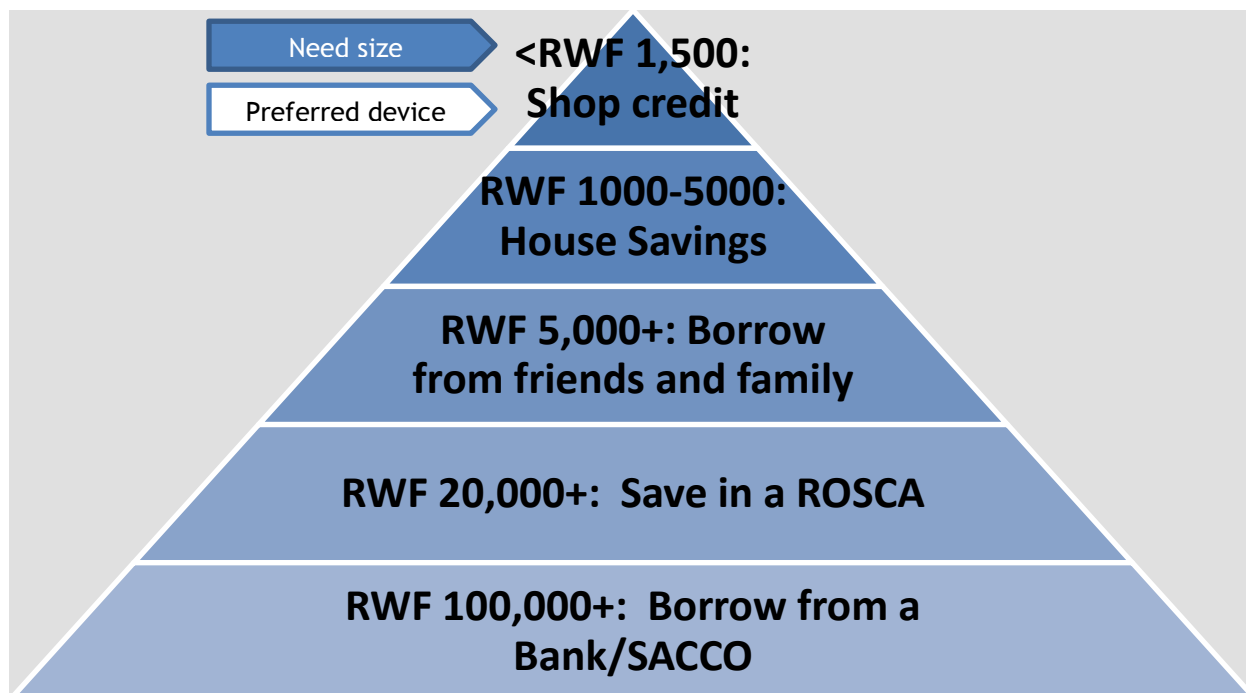
3.1 Access is not the primary barrier to effective financial inclusion in Rwanda. In many countries, low uptake of formal financial products is inhibited by fundamental access issues. Banking facilities are often far away from the customers they aim to serve. Many adults may not have the identification required to meet regulatory requirements to operate a bank account. And even when these barriers are tackled, the costs of banking can keep low income people out. Banking services are too expensive.

These are not the primary issues in Rwanda. As Fin Scope 2012 pointed out, more than 90% of adults now live within 5 km of a formal financial institution. About 93% of adults have a national identification card. And, of those not using formal financial services, only 7% cited affordability as the explanation. Financial diaries echoed this sentiment. Among bank users, average travel time was just 19 minutes and only 10 minutes for SACCOs. Very few mentioned distance as a factor in why they were not using a bank product.

3.2 Respondents are using formal institutions, but only for a limited set of needs. Diaries respondents told us that they use banks and SACCOs when they need them, but the set of services for which banks seem relevant is fairly limited for most people. Formal institutions are for “big money.” That most often means big loans for investing in a business or building a home, but it can also mean receiving large payments, for example when tenants are depositing large monthly payments. Formal institutions were not seen as places to temporarily store and save money. Few respondents were saving a lot of money. The money they were saving was short term and temporary and banks were seen as inconvenient stores for this kind of cash.

Overall, we saw that many respondents were using the same types of financial devices—formal and informal—all the way up to the wealthiest groups. And they used these instruments in quite similar ways. Rather than formal products substituting for informal ones, we observed that respondents turned to different financial devices for different needs, fairly neatly classified by the size of the financial need (Figure 5).

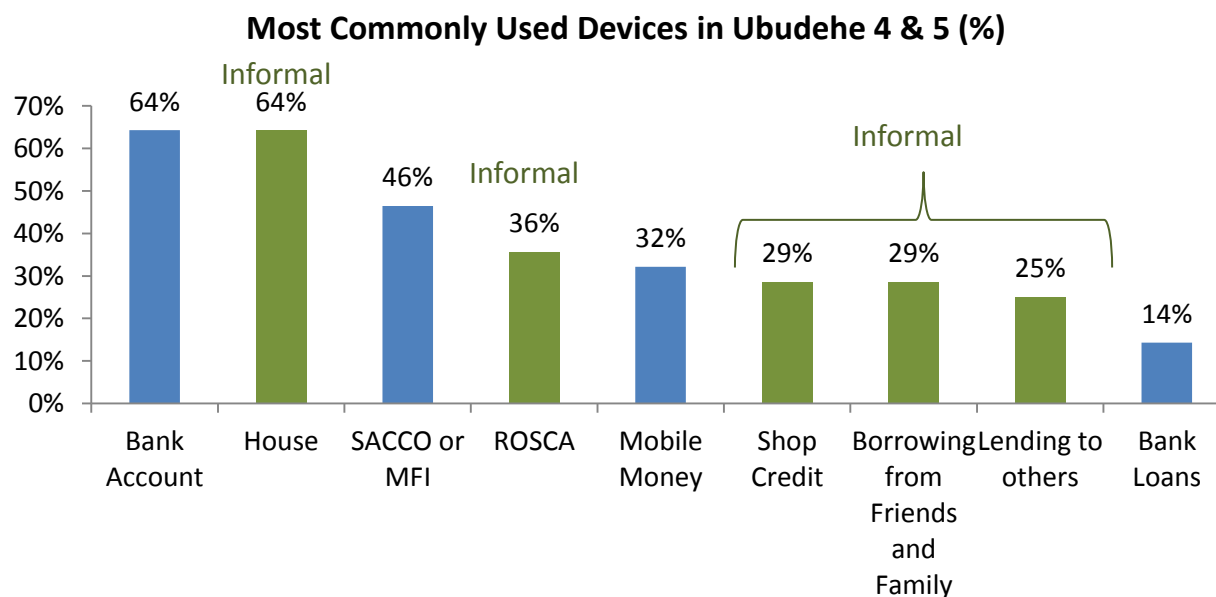
Figure 5: Size of financial need and preferred instrument to fill the need. Different financial devices seem to be selected in large part by the size of the financial need. Devices are complements rather than substitutes.



This echoes a similar pattern found in Financial Diaries households in India, Bangladesh and South Africa in previous research.⁴ In South Africa, for example, we observed that respondents would use both formal and informal sources of credit, like moneylenders. On the surface, costs of moneylenders seem very high. Their annualized interest rates are indeed extremely high. So, why would a person use them in place of formal sources of credit? Well, typically formal loans must be bigger in scale and longer term. Because of that structure, the monthly debt burden for formal loans can be much higher than informal ones even when interest rates are lower. The quick, small, not-so-burdensome-on-the-monthly-budget loans from moneylenders are therefore used for temporary cash flow bridging and the larger formal loans for bigger needs and investments. Formal loans weren't designed to help people manageably meet those smaller, more frequent needs.

Even the relatively wealthy people in our sample continue using a mix of informal products to meet this range of needs. Having a bank account doesn't stop them from saving in the house, belonging to ikibinas (ROSCAs), or even buying goods on credit from their local shops (Figure 6).

Figure 6: Even those in wealthier groups use informal financial devices.

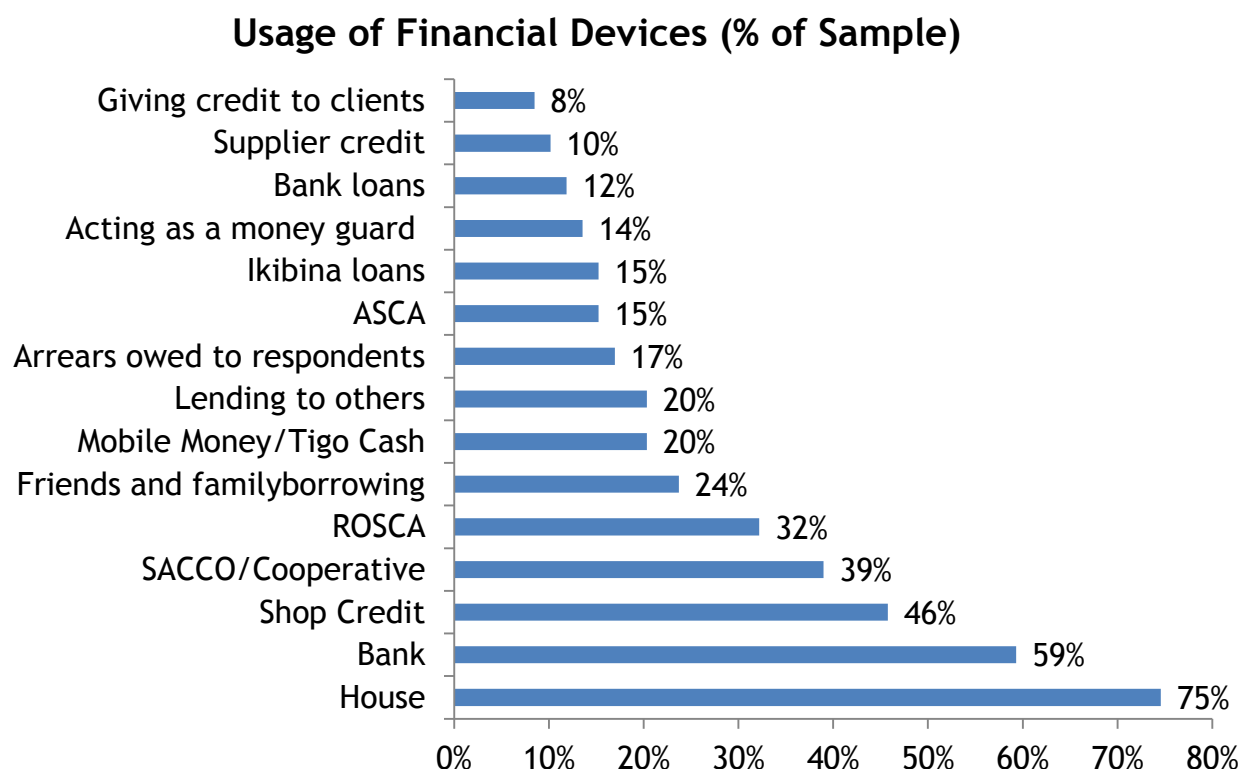


3.3 Consumers—even in the low end of the income scale—are active money managers using a range of financial devices and channelling significant shares of their incomes through those devices. On average, each respondent was using five financial devices, two of which were formal. The most

⁴Portfolio Balancing: Rethinking our assumptions about the benefits and costs of financial products for the poor (CGAP 2012). <http://www.slideshare.net/CGAP/cgap-bfa-portfolio-balancing-september-2012>

commonly used financial devices were saving in the house,⁵ a bank account, taking credit at the shop, having an account at a SACCO or cooperative, and belonging to a rotating savings and credit association (ROSCA).⁶ The same financial devices were among the most used found by FinScope, but in lower proportions.⁷ Repeated diaries visits often turn up a larger number of financial devices in use than one time surveys, like FinScope.

Figure 7: Financial devices used in Financial Diaries sample



And many people use their financial devices quite intensively, even at the low end of the income spectrum. Our main measure for the intensity of financial device usage is “turnover”: we take the sum of flows into and out of the device and divide that by income. It shows us the share of income

⁵ Saving in the house refers to informal savings a person keeps for him or herself. This can be under the mattress, hidden in clothing, or even buried in the ground.

⁶ Note: The local term “ikibina” refers to a savings group. These savings groups come in two main types: 1) ROSCAs—rotating savings and credit associations that collect money regularly from members and give each collection to one (or two) members per meeting; 2) ASCAs—accumulating savings and credit associates that collect contributions from members into a common pot that accumulates over time; members may borrow from the fund and at the end of some term (usually 9 months-1 year), the group distributes the savings and accumulating interest back to members.

⁷ FinScope found usage of top financial devices as follows: savings groups (34%), informal borrowing from friends and family (28%), shop credit (28%), savings in the house (21%), and bank accounts (15%).

moving through financial devices. In some cases, this value rises above 100%, indicating that the funds moving through financial devices are greater than income overall because of frequent movement of funds in and out of various devices. Median turnover in our sample was 119% of income. And these high numbers were even higher in the lowest income group. Our respondents in Ubudehe 2, had access to an average of RWF 85,224⁸ (US\$135) to manage in a month, and they transacted 295% of that into and out of financial devices.

Figure 8: Looking at the financial flows through each device, we see that several are used intensively.

Financial Flows as a Share of Income (Among Users Only)	
	Average flows as share of income
Serving as a money guard	200%
House	55%
Informal borrowing	32%
Bank/SACCO account	27%
Bank borrowing	24%
Mobile Money	18%
Credit at the shop	11%
ROSCA	9%
Lending to others	5%
SACCO borrowing	4%
ASCA	2%

Banks, as we've stated above, are viewed as helpful for "big money" needs, which is seen both in the way that respondents talk about the purpose of their bank accounts and in balances—especially loan balances—held in the institutions (

⁸ In cases of small business, this includes all revenue not profit. We're looking at money available to manage.

Figure 9).

Figure 9: Balances in financial devices used by Diaries respondents

ASSET BALANCES	Median balance (RWF)	Median balance (US\$)	LIABILITY BALANCES	Median balance (RWF)	Median balance (US\$)
Investment in another business	15 million	\$23,810	Bank loans	1.059 million	\$1,681
Pension	64,900	\$103.02	Cooperative loans	32,500	\$51.59
ROSCA	44,000	\$69.84	Acting as a money guard	22,000	\$34.92
SACCO/Cooperative	18,000	\$28.57	Friends and family borrowing	15,500	\$24.60
Arrears owed to respondents	13,500	\$21.43	Ikibina loans	14,000	\$22.22
Bank	10,000	\$15.87	Supplier credit	4,000	\$6.35
Lending to others	10,000	\$15.87	Shop Credit	1,200	\$1.90
ASCA	6,000	\$9.52	Advances from employers	1,000	\$1.59
House	4,000	\$6.35			
Giving credit to clients	3,000	\$4.76			
Mobile Money/Tigo Cash	600	\$0.95			

But, the problem is that most people only need “big money” needs tended to once in a while. They can’t afford to take a RWF 500,00 (US\$ 793) loan every month, even every year. The debt burden is too high. And very few ever have the kinds of windfall incomes or large savings that, to them, justify storing money in a formal account. Our respondents did not see banks as helpful tools to meet their smaller, much more frequent needs, such as cash flow bridging for basic needs, paying for school fees, and coping with illness.

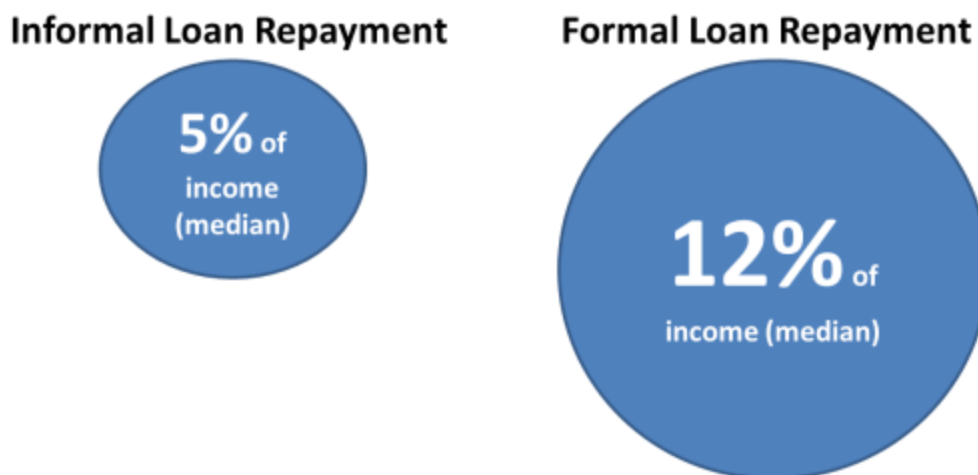
Figure 10: Top saving and borrowing purposes identified in FinScope.

Top Savings Purposes	% of Population reporting primary <u>savings</u> reason (FinScope)
Living expenses for when times are hard	63%
Education or school fees	8%
Building/Buying a house/land	5%
Medical expenses/medical emergencies	5%

Top Borrowing Purposes	% of Population reporting primary borrowing reason (FinScope)
Living expenses when you did not have money	39%
Medical expenses/medical emergencies	10%
Education or school fees	8%
An emergency other than medical	8%

3.4 The challenge for formal institutions is to become relevant for a wider range of financial purposes in clients lives and a wider range of need sizes. Formal institutions wanting to serve and retain clients will need to ensure that the products they offer are adapted to fit the smaller, more frequent needs of this market. They can learn a lot from observing what informal products do right. Informal products offer flexibility, convenience, and overall terms that better fit with the earning patterns and financial needs of the market. For example, informal loans are offered in sizes that can meet a range of non-investment sized needs. And, the overall debt burden of informal loans is more manageable than formal loans. We find in many countries that the monthly debt burden is much more important to the low-income consumer than interest rates or even overall interest costs (Figure 11).

Figure 11: The average loan burden on respondent's budget is much lower with informal rather than formal loans.



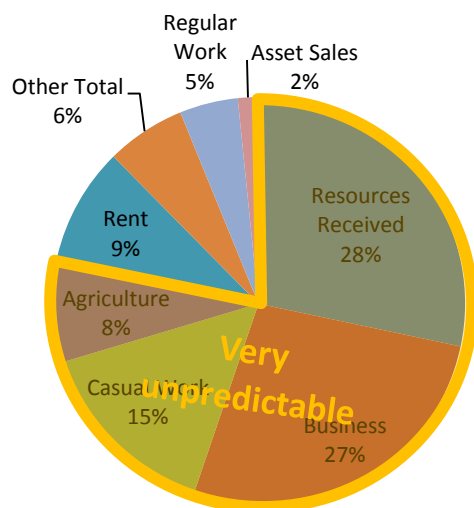
While physical access has not been a barrier to account opening, distance may still be a challenge as institutions try to become more relevant and achieve higher levels of usage at transaction sizes that are quite a bit smaller than formal institutions may have been accustomed to in the past. In FinScope for example, we see that 65% of those respondents living within one hour's walking distance to a bank used one within the last 6 months versus 46% living farther away. Diaries respondents spent an average

of RWF 200 (US\$0.32) each way to visit a bank. While it's relatively small cost, it's high in comparison to incomes and the sizes of transactions currently captured by informal financial devices.

3.5 In considering how to improve relevance, financial providers have to understand the central financial management challenges faced by consumers. That challenge is about making ends meet and investing in the future when faced with uncertain incomes and a wide range of risks. FinScope found that only 12% of Rwandans receive regular wages from government or private business. The

Figure 12: Income sources of respondents are irregular. Incomes come in mostly unpredictable, frequent, and small values.

Distribution of Income Sources among Diaries
Respondents (% by value)

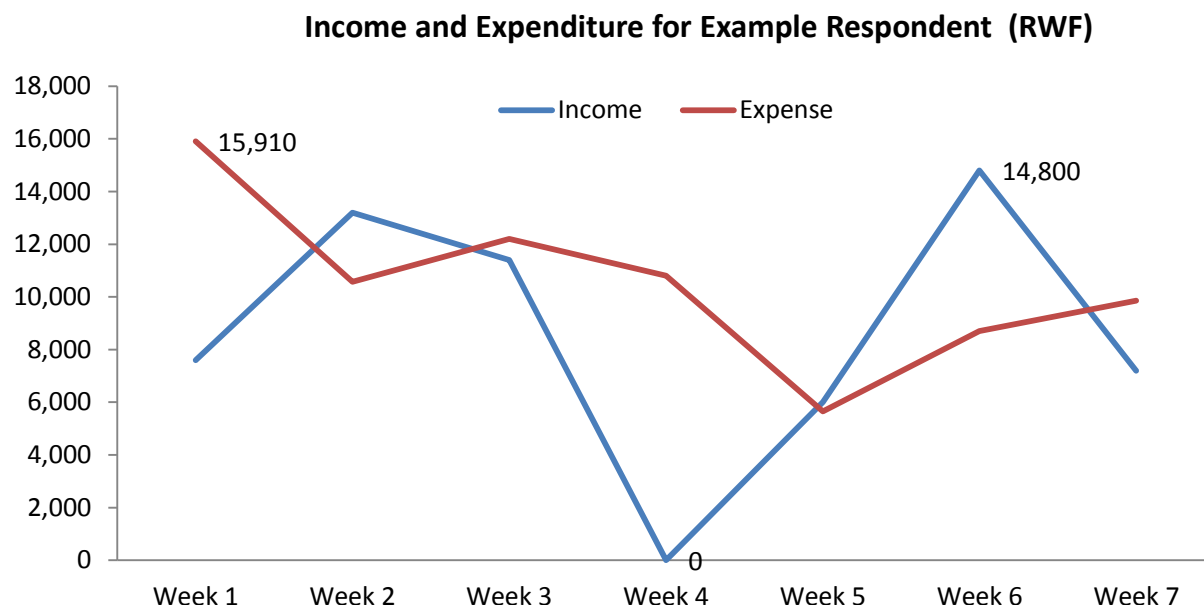


majority earn incomes from less predictable sources like casual day labor, small businesses, and remittances. The income earning pattern is to receive frequent, small bits of income.

This pattern of income is extremely difficult to manage. One can never be quite sure how much will come in each day, so budgets have to be constantly adjusted to meet realities. Small values can seem so insignificant that people feel it's harder to exercise discipline over their spending. Plus, the funds are received and managed in cash, which is right there, always begging to be spent on immediate needs. It's just not easy to meet day-to-

day needs consistently or to build up the kinds of big lump sums needed for larger investments or to pay large bills, like school fees. With constant demands on daily wages, building up some kind of rainy day fund for things like illnesses or other small emergencies is also a real struggle. Rather than looking at financial management as if it were a strategic planning exercise, in which the goal is allocation of a fixed level of resources, typical households make dozens of decisions every day about how to gain and use their incomes. The challenge is a constant struggle to be disciplined. It's not just about allocation of those frequent, small incomes, but also—centrally—about how to boost those incomes with investments in things like dairy cows, small businesses, and their children's education.

Figure 13: Typical incomes are small, but also volatile.



3.6 Relevant products will recognize the financial goals of Rwandans and the common threats that throw people off course. Across the sample, we saw that respondents closely shared a vision of a financially successful life:

1. **Secure house with solid roof.** This was the primary concern of most respondents. Even those who considered themselves “successful” pointed to their homes as evidence. Making the home safe and solid was a priority for many respondents whose poorly constructed homes were damaged frequently by heavy rains or insecure doors made them vulnerable to theft and violence. Respondents told us that successful people improve their homes. When we asked respondents about the major expenses they expected to incur in the next one year, a majority told us they planned some kind of home repair.
2. **Small plot of agricultural land.** Respondents, even in peri-urban areas, told us that it was really difficult to be successful without at least a small piece of land. Without this, you are unable to produce some of your own food, and food consumes a major part of your budget. You are vulnerable to changing food prices. If you can afford to hold onto a bit of land, plant some bananas, and beans, it provides quite a bit of economic security and peace of mind.
3. **Children in school.** Having your children in school is also a sign of success for many. Secondary school expenses can be quite a burden for many families, and only the “successful” ones are able to keep their kids in school, preferably a good school.
4. **1-2 cross-breed dairy cows and a shed to protect them.** Respondents told us that they value cows, because the cows provide the three “m”s: milk, manure, and meat. Milk is the biggest

attraction. In a context in which it's quite difficult to achieve a basic level of reliable income, milk offers a small, but very important base of stability.

5. **Rental annex. The same is true of rental housing.** Under current market conditions, no one struggles to find tenants: build a room and you can fill it. Rental income adds a predictable, reliable, and usually fairly substantial income that a person can plan against and continue collecting, even when they are physically unable to do the kinds of farm casual work that they traditionally have relied upon.



"A financially successful individual must have a banana plantation, plots of land, a cow that produces milk, own a good pair of shoes and have nice skin as a result of using good skin products."

"A financially successful person must have a good house!"

"I must first cement the floor, before I buy a cooker."

If I won RWF 600,000, "I would put doors on the house."



Photos taken by respondents

"If I can take my three children to school, it will look like saving in them...If my children do not go to school, it will require me to give them properties to start their lives. But if educated, it is easy to start their life outside."



"With God's blessings, my son will finish school and help me. School fees are the priority. That's the retirement fund!"

"Cows are a good investment. They give the three 'm's: Milk, Manure, and Meat."



"Financially successful people have many cows where if one is giving milk the other is producing young ones. Cows give the owners milk and their children cannot contract kwashiorkor."

Photos taken by respondents



"This is the kind of baby I want when I get married. It's how the children of the successful look. This is a child who gets everything she wants by virtue of her looks."

But success is not just about what you have. It's also about how you feel. Our respondents told us that you can immediately distinguish a rich person from a poor person by their clothes, the confidence, the glow of the skin. They reminded that poverty is humiliating and that they hunger for dignity.

"A financially successful person walks elegantly, dresses well and eats well. You can tell a financially successful person from how he looks, his face is usually very clear."

"Her appearance, both in terms of her dressing and hair style show that she has spent at least RWF 50,000 (US\$79) to look the way she looks. You can tell she is different from the other women in the photo."

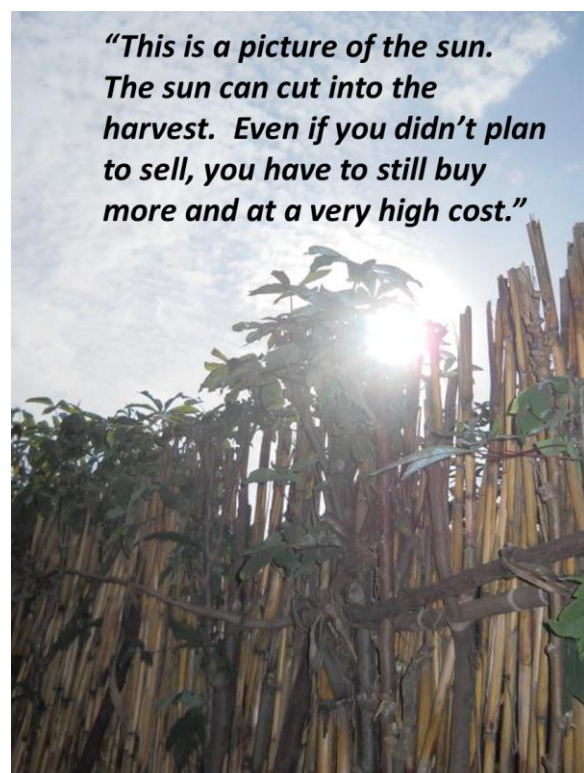
And respondents shared a common set of fears about threats that might throw them off course from pursuing their financial goals.

- **Health.** Respondents were afraid of becoming sick or having a child become sick. Many respondents have access to government health insurance (*mutuelle de santé*), and the costs of treatment were not the primary worry. Instead, relying on daily income earning through casual work and small businesses, a lost day or week of income posed a much bigger threat. Few had enough savings to bridge even a temporary loss like this. An illness might mean the children go hungry, are pulled out of school, or that the family takes on a debt it will struggle to repay.
- **Weather.** Weather posed a range of risks to households: it might reduce farming yields, raise food prices, prevent some from pursuing their businesses, and damage housing, requiring costly repairs. The threats come from both too much sun and too much rain, neither of which respondents can control.
- **Domestic turmoil.** Female respondents in particular told us about the emotional and financial stress that arises from separation with a spouse. Separations often started when a spouse's business failed or the spouse sold off an important family asset. Then, women were left with the responsibility of catering for children's needs without an economically active partner. They often had nowhere else to go, with few assets to start their lives over independently. Many continued to cohabitate with former spouses, despite the separation. They would not talk to one another, not mix finances, but live side by side hating one another, but unable to afford living apart.
- **Alcoholism.** When we asked about what causes financial stress, many talked about alcoholism. Families affected by addiction have a hard time meeting their goals. A main income earner becomes distracted from being productive, and channels his or her earnings to alcohol. It becomes a major struggle for other family members who must work extra hard and be extra disciplined with their money.

Figure 14: Especially among the very poor, even brief illnesses can be devastating.

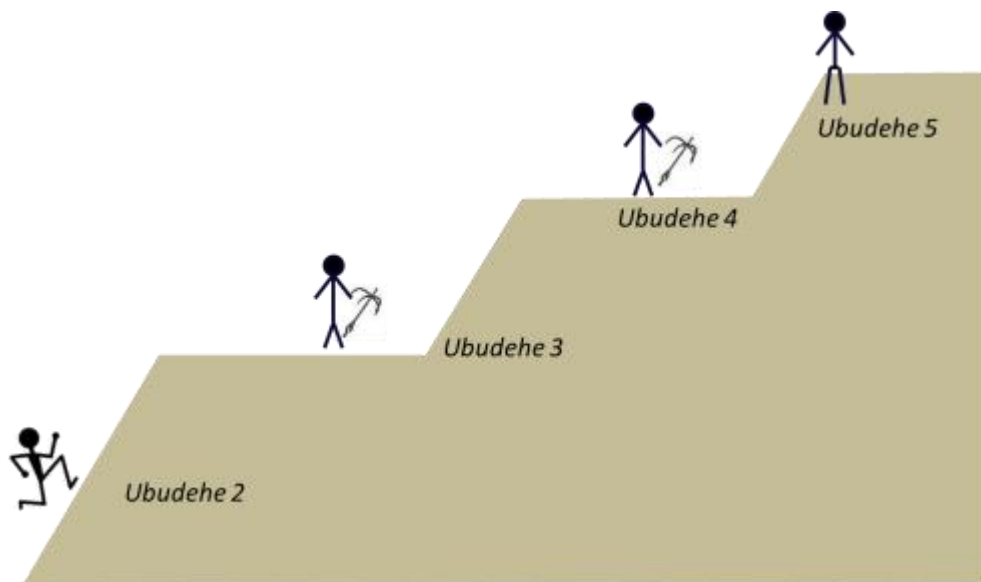


Figure 15: The uncertainty of weather can also be a major source of stress, even for those who do not depend directly on agriculture.



Rwandans are working to both advance economically and prevent backsliding during their steep upward climbs. Financial devices can be the hooks that help them climb and hold their ground. Formal financial services seem to be doing a pretty good job at providing the big money boosts helping people move ahead, but are neglecting the importance of the devices that serve day to day needs, helping people hold their position and cope with the relentless threats to their financial success. Here, imperfect informal financial services appear to be the only options.

Figure 16: Stylized view of the path to economic prosperity.



3.7 The formal sector can win by out competing ineffective informal products. While informal products are used for many of the common, frequent needs faced by Rwanda’s consumers, they are far from perfect. This is great news for formal providers, who are well positioned to compete against informal devices that are unreliable and uncomfortable.

Not all informal products are equally unreliable (Figure 17). Our respondents did not report many problems with ASCAs, savings groups that build up internal pots of money and lend to members. Users praised them for their flexibility, particularly for small, short-term bridging loans. One respondent told us her group is extremely helpful, “They give you all the money you need, even as much as RWF 40,000 (US\$63.50)!” The challenge with groups seems to be making the social relationships last. Rather than being long term members, many respondents are occasional members. They join when they have stable enough incomes to participate and leave when circumstances change. Often when members might need this type of facility most—like when their children enter secondary school—they drop out, feeling that there’s just not enough money to keep up with fixed contributions.

Though **ASCAs** are among the most reliable informal devices in our sample, they are not available to everyone. Only seven of our respondents—two men and five women—actively made contributions during the period of our study. Stable groups are not everywhere and open to everyone and can't offer as much flexibility as formal alternatives might for individuals to participate only when needed.

ROSCAs, though more prevalent, had a higher incidence of losses. But, it was rare for respondents to lose all of their money in the group. Instead, they told us that members drop out during the round and those whose turns come late in the round can lose part of their lump sum. If there are eight members contributing RWF 1000 (US\$1.59) per month, and one person drops out, the last member might get only RWF 7,000 (US\$11.11) instead of the full RWF 8,000 (US\$12.70) due. Those who manage groups complain that there's often a lot of chasing of members to follow through on commitments and frequent arguments about how to resolve these types of issues.

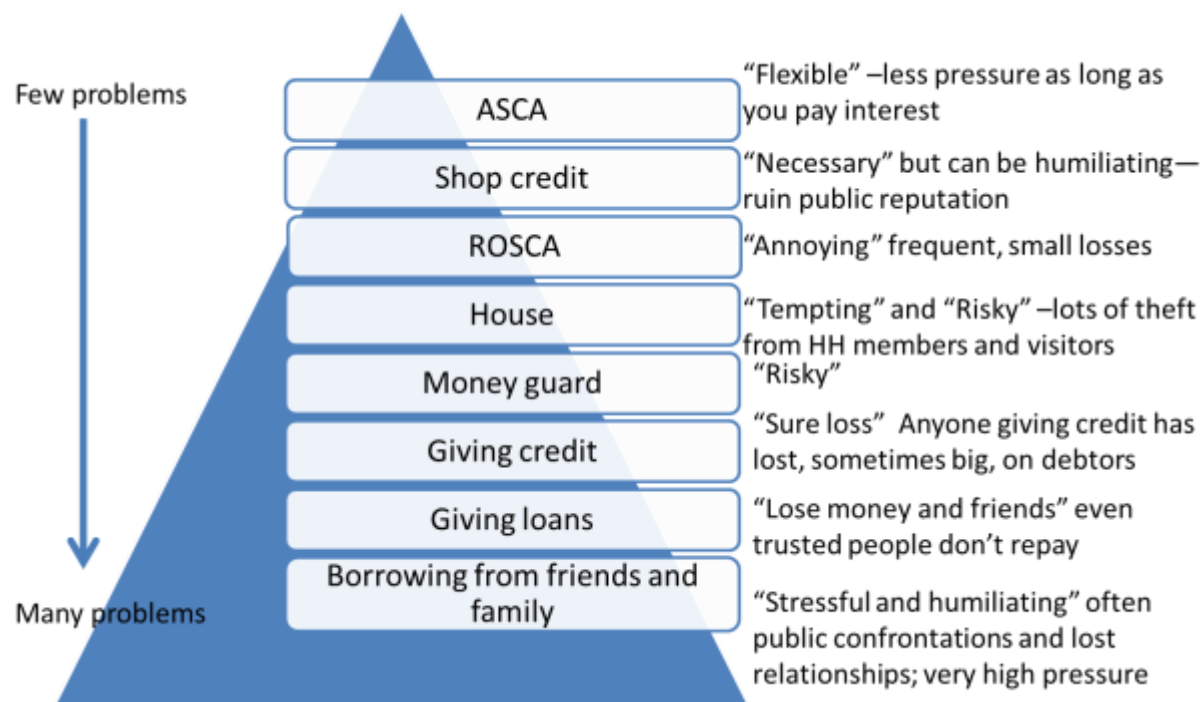
Shop credit isn't very risky for the user in financial terms. Shop credit is fairly widely available and based on having a good relationship with a shop keeper. This is probably the most widely available source of credit, so when families are short on money, it is a key strategy for freeing up funds to use on things like urgent home repairs and medical expenses. Our respondents felt like it was a necessary evil. They hated the social pressure that comes along with shop borrowing. Shop keepers can tell others that you've borrowed, and if you don't repay it is humiliating. Shopkeepers report you to local authorities who put a lot of pressure on you to repay, and everyone knows about your problems. You can be blocked from this important source of short term credit if the entire community has labeled you a debtor.

Informal saving in the house or giving money to a friend or relative to hold it are both risky strategies. In the house, money is too accessible; it ends up being spent on unplanned things because it's so close at hand. It is also vulnerable to theft. This comes from unknown thieves, but also from other household members and visitors. Giving money to a friend may help with one person's discipline problems, but are then at the mercy of another's. This money often "goes missing." Our respondents both lost money saving with guards and "lost" money when holding it for others. They say the money was "stolen," but it seems as if it's understood by both parties that calling it "stolen" is a way of saving face for money that was simply diverted to another purpose.

Giving credit to clients or loans to family and friends is really very risky. Nearly everyone who had given loans had lost money, and often with the money, friends. Money strains social relationships, our respondents told us. While people often feel they have no choice but to borrow from family and friends to deal with certain situations, they told us it's usually uncomfortable. It's humiliating to let down your family member or friend if you can't repay immediately. Family and friends tell one another about your debt, embarrass you publicly, and place a lot of pressure on you to repay quickly.

When they're a member of a group, borrowing from the group is much more preferable: it's a business-like transaction with clear terms and penalties. Much more than other countries, our respondents in Rwanda are eager to avoid these kinds of loans. There seems to be space for the formal sector to offer professional, private alternatives.

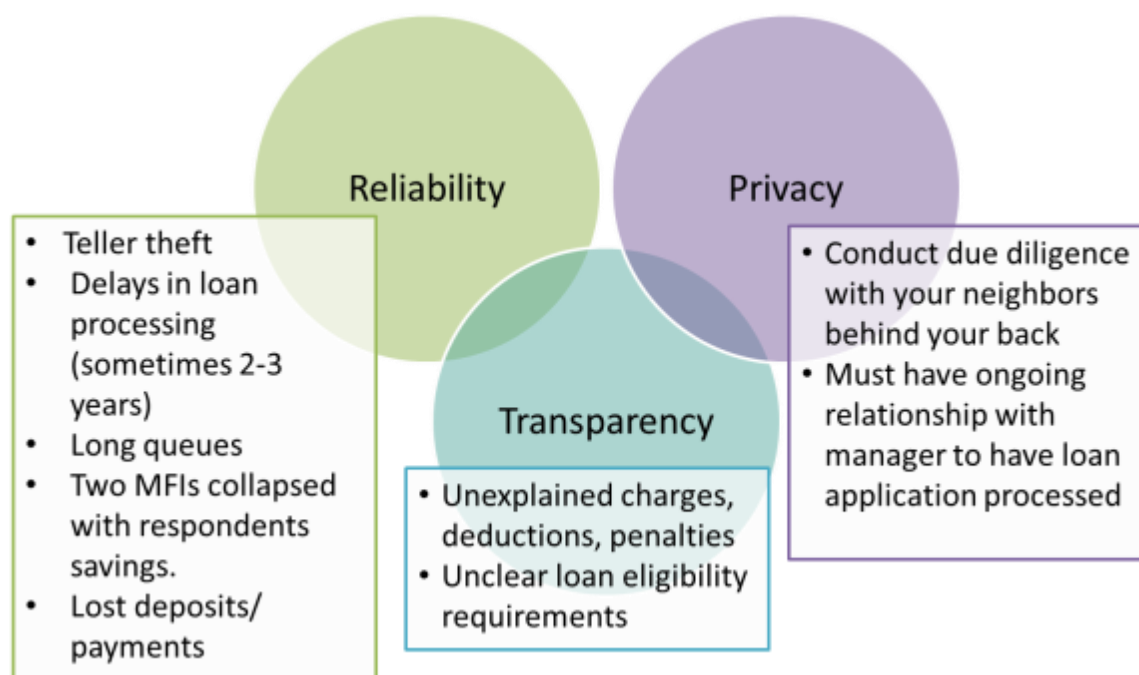
Figure 17: Informal products can be unreliable and uncomfortable.



3.8 Relevance is going to mean adapting products for a wider range of uses, but also tackling service quality challenges. Customers will continue turning to formal financial devices for their "big money" needs, since they have few alternatives. But, they are unlikely to shift other needs there at current service levels where alternatives exist. *Portfolios of the Poor* highlights that formal financial devices tend to offer users better reliability, privacy, and transparency than informal alternatives. However, we found that on these important dimensions of quality, there is still much room for improvement in Rwanda. Among respondents' top concerns were long queues in branches and long waiting times for loans whose terms are unclear. They're never quite sure if they are eligible for a loan and of what size. It's a frustrating process to guess what you're eligible for and then wait—sometimes up to two years—for a decision. Some were frustrated about how those decisions were made. For example, one relatively wealthy business woman complained that the bank came around asking her neighbors about her credit worthiness. She felt her privacy was violated; why should her neighbors be told she was applying for a loan and how could the bank do this without her consent? She instead chose another bank to be her loan provider.

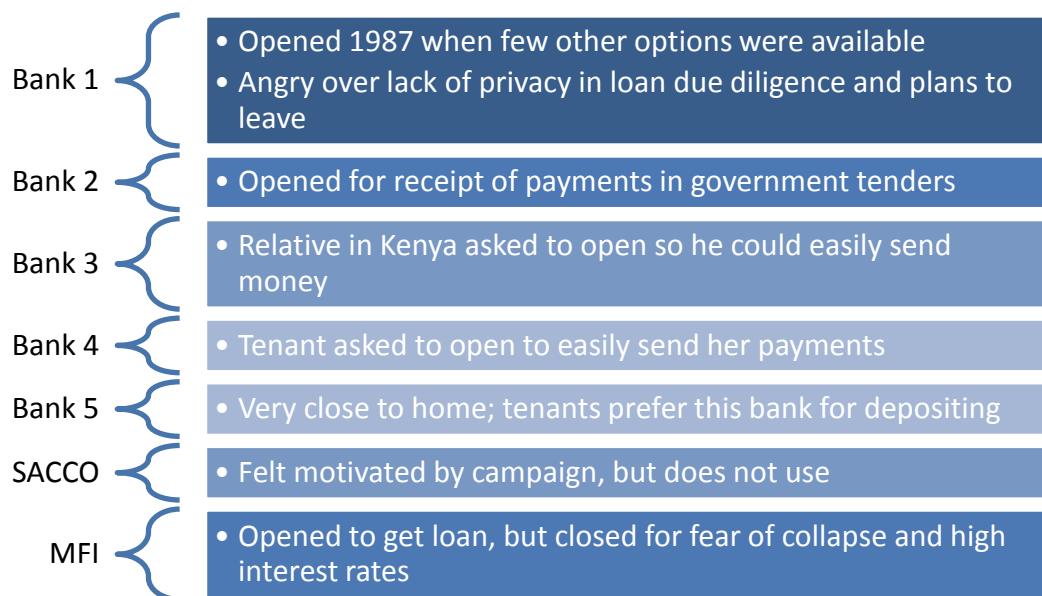
Another quite serious concern at the low end of the market is historical MFI failures. Two Diaries respondents experienced financial devastation when MFIs collapsed. One had been a soldier who saved consistently while deployed in Darfur. He saved most of his pay in an MFI that collapsed with his entire savings of RWF 200,000 (\$317). At the low end of the market, MFIs, SACCOs and Banks are somewhat linked in consumers' minds. They are the first place a consumer has an "account." Ensuring the stability of such institutions should be an industry-wide concern, because the failure of any institution induces negative inclusion, making poor families even more poor and vulnerable and driving consumers away from the services the sector aims to promote.

Figure 18: Summary of service quality challenges at formal financial service providers



Because formal financial institutions are viewed as “good at” only big money needs, which are often discreet, time-bound purposes for most people, we see that people move fluidly in and out of financial institutions or use multiple banks and SACCOs simultaneously to meet their needs. For example, Marie is a fairly wealth investor and business woman who earns a living through a vegetable farm, livestock rearing, rental properties, and as a shareholder in a school. During our study, she had five bank accounts, a SACCO, and an MFI account, all for different reasons (Figure 19).

Figure 19: Marie’s bank, SACCO, and MFI accounts.



But even with all of these, she still belongs to a savings group and takes goods on credit from her local shop. These informal devices meet her requirements for speed, convenience, and discipline in ways her banks do not.

4. DESIGNING PRODUCTS THAT BETTER FIT CONSUMERS’ NEEDS

So, how should the financial sector respond? In considering new product offerings that better align with the needs of Rwanda’s consumers, we adopt Clayton Christensen’s “Jobs to be Done” framework. Instead of segmenting the market by demographic or psychometric categories, we think through what it is that consumers are “hiring” their financial services to do. What are they looking for? How might the sector do that job better than existing alternatives?

Using that perspective, we identify six financial “jobs” consumers need their financial devices to do:

1. Enable **INVESTMENT** in business, housing, and productive assets
2. Enable **PAYMENTS** to be received from tenants, business, government, and friends/family
3. Pay for **EDUCATION** expenses in lump sums
4. **SMOOTH CONSUMPTION** when experience temporary income shortfalls
5. **RETAIN PHYSICAL ASSETS** when face income/expenditure blips
6. **CUSHION** oneself from domestic upheaval

Let’s look at each job in turn and consider opportunities available to the formal financial sector:

JOB 1. ENABLE INVESTMENT IN BUSINESS, HOUSING, AND PRODUCTIVE ASSETS

Formal institutions are doing a pretty good job offering “big money” loans that help people invest. 24% of our respondents have had a formal loan from a bank, MFI, or SACCO in the past. Many had upcoming investment needs in the next year: home repairs (expected to cost about RWF 300,000 (US\$476)), business expansion (costing between RWF 150,000-300,000, US\$338-\$476), or land and home purchases (RWF 300,000-500,000, US\$476-\$794). Loans from formal institutions were cited as the main way respondents expected to access these funds. But, there is still space for providers and policymakers to improve on this job by tackling service quality challenges and considering alternative paths to supporting the poorest households to accumulate productive assets.

We see that people are fluidly moving in and out of formal providers and often use multiple providers in an attempt to get their needs met. Improving service quality and demonstrating value to these clients beyond one big loan could go a long way to retaining clients and reducing dormancy. We’ll talk about added value products in the following sections, but when it comes just to borrowing for investment, our respondents complained about:

1. *Long processing times.* Several respondents waited more than a year for their applications to be processed.
2. *Unclear eligibility requirements.* So people try to prove themselves by constantly depositing and withdrawing the same money. Some respondents who had previously received loans and paid them back on schedule were denied further loans, causing confusion about what they had done wrong to no longer be able to borrow.
3. *Lack of privacy.* Some complain about due diligence processes that involve telling neighbors and local shopkeepers that a person is applying for a loan and asking them about his or her income level and credit worthiness.
4. *Disorganization.* One person complained of the bank losing track of three separate payments made against her debt.

Additionally, bank, SACCO, and MFI loans do not necessarily assist the poorest in building assets. While accumulation remains the goal, it feels unrealistic for low-income groups for which bank loans are out of reach. Only God or government can intervene.

“Once Mrs. Kagame gave out good cows to people around our sector and I was wondering how they registered people to get cows, and I wished I was among them.”

A woman with no land—but a government-built house—has hopes of repairing her house, buying a new hoe, and having enough of an income cushion to be able to take a few days off of casual work to seek medical treatment. She thinks this is just a dream:

“Miracles can happen, like Kagame building my house.”⁹

Instead of building net assets, low income groups sometimes make themselves more vulnerable by trading productive assets for necessary, but unproductive investments. For example, 29% of respondents—including 1/2 of all respondents in Ubudehe 2—financed the construction of their home by selling land. Selling land is also a common way of paying school fees. When possible, lower income individuals also transfer lumpy income into piece-by-piece investments. 42% of households acquired their home at least in part by buying building materials little by little as they got money over time. That doesn’t work well when a big lump is needed at one time to, for example, buy a cow. The result is that lumpy investments like that simply don’t get made.

Opportunity: Improve quality, expand farther downmarket, and encourage asset transfer at lowest end of market.

There is space for providers and policymakers to improve on this job. Right now, it’s difficult for low income households to access capital to grow business, buy animals, and construct secure houses, low income households are often tempted to sell assets they can never regain, there are important gaps in small-scale housing finance, and there are limited ways to assess credit worthiness of first time borrowers.

Providers ought to address service quality shortcomings in the offering of investment loans and consider how they might adapt to lower-income customers. Perhaps they can assist them in building small lumps into bigger ones (like bricks for a house) to facilitate lumpy asset purchases. That could be a hard sell given low savings rates are across the board. There are opportunities to rethink lending practices, such as:

- Consider products with a mix of savings and lending requirements/ conditions;
- Think about systematic packaging/marketing for loan against registered assets as a means of decreasing risk of asset sale (and retaining clients after initial loan);
- Facilitate linkage to property registration when giving asset loans; and
- Introduce new ways to assess credit worthiness and make the process transparent.

Policymakers should recognize the value of asset transfers to the lowest income groups. There appears to be significant value in helping the poorest acquire and retain a decent home, small piece of land, or a dairy cow.

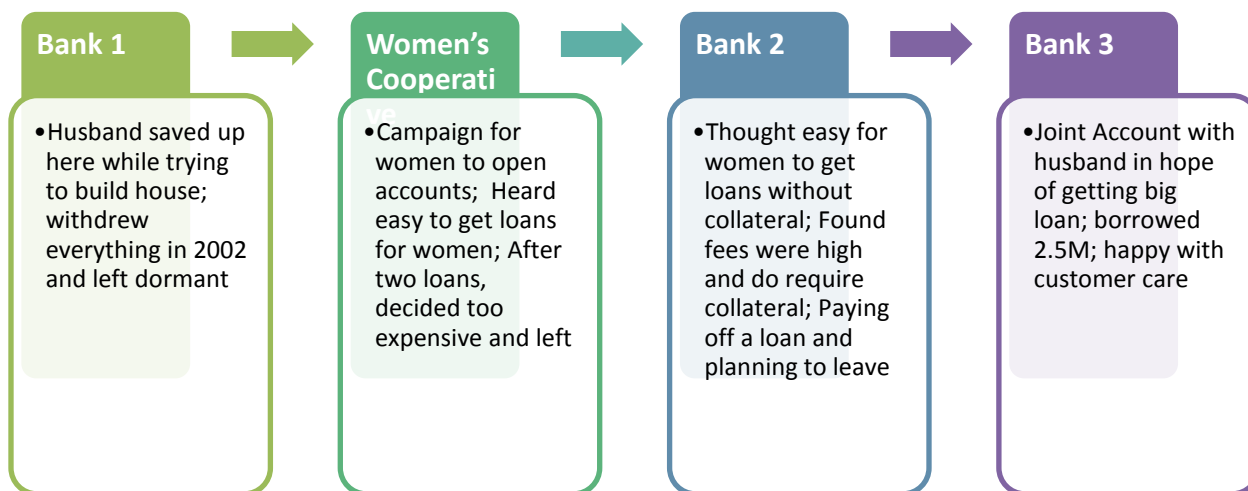
⁹ Government recently financed the construction of her brick house.

JOB 2. ENABLE PAYMENTS TO BE RECEIVED FROM TENANTS, BUSINESS, GOVERNMENT, AND FRIENDS/FAMILY

Formal institutions are doing well at enabling payments of salaries, stipends, rent, pensions, and government benefits through banks and SACCOs. And, mobile network operators have effectively enabled remote payments via mobile money. Both are trusted and used widely to facilitate big payments. But, in these closed-loop systems, people open multiple bank/mobile money accounts just to facilitate payments. They open multiple mobile money accounts to receive funds from senders with different accounts. Landlords and remittance recipients open multiple bank accounts to receive transfers from tenants with different accounts (recall Marie, Figure 19: Marie’s bank, SACCO, and MFI accounts.).

With bank usage so heavily driven by discrete purposes, consumers move fluidly in and out of their financial devices. Formal institutions are not seen as offering long-term value to serve a wider range of needs.

Figure 20: “Anne” has used four different formal financial institutions in past 10 years.



Clients pull out their electronic value quickly to transact in cash. Consider mobile money. The median balance on mobile money was RWF 600 (US\$ 0.95), when the median deposit and receipt size in the period was RWF 11,300 (US\$17.94) for active users. Users told us they tend to deposit only when they need to send and remove the funds as soon as they arrive in the account. Some feel insecure about leaving value on mobile money. So, the potential offered by these systems may not be fully realized. People withdraw the cash and keep it in the house, where it is easily whittled away.

Opportunity: Integrate payment networks and offer value beyond payments alone.

More potential benefits could be available by integrating existing systems and demonstrating value beyond moving “big money.” Providers should work together to integrate payment networks. Experience elsewhere suggests that integrated payment networks in the end benefit all payments players by inducing network effects that increase users and usage across the system.¹⁰ Banks and mobile money operators ought to market their accounts as safe and accessible ways to store value, not just to send and receive. It appears that awareness of these benefits may be low. Policymakers can assist in realizing this opportunity by encouraging integrated payment networks and ensuring the regulatory alignment needed to make integrated payments systems work.

JOB 3. PAY FOR EDUCATION EXPENSES IN LUMP SUMS

Education expenses are nearly universal, with most parents anticipating cost of about RWF 15,000 (US\$24) per child per term. This can go up as high as RWF 3,000,000 (US\$4,762) per year for some respondents. There is a mismatch between the small, irregular incomes of respondents and the relatively large lump sums needed for school fees. In order to pay school fees, our respondents told us that the main strategies were:

- Selling assets (often land);
- Diverting income/forgoing consumption; and
- Keeping children home from school.

None of those are good options. The reality is that voluntary savings are too small to meet education costs, but somewhat better with commitment devices:

Device	Median Balance (RWF)	Median Balance (US\$)
House	4,000	US\$6.35
Bank	10,000	US\$15.87
SACCO/MFI	18,000	US\$28.57
ROSCA	44,000	US\$69.84

But, ROSCAs are not accessible to all people. Low-income individuals often drop out under budget stress, and most users report frequent small losses while participating in such groups.

¹⁰ Guibourg, Gabriela. Interoperability and Network Externalities in Electronic Payments. Sveriges Riksbank Working Paper Series, No. 126. September 2001.
http://www.riksbank.se/Upload/Dokument_riksbank/Kat_foa/wp_126.pdf

Consider “Lorna,” a 26-year-old grocery store owner with two children. Lorna’s monthly income of about RWF186,000 (\$295) is generated mostly by her business (86%) and supplemented by gifts from her husband. Lorna has not yet taken her school-going daughter to school. She and her husband expect to need RWF 120,000 (\$190) per year for the educational expenses for their two children.

Lorna saves in the house, but is only able to keep very small values, which she uses to sort unexpected issues. For example, she saved there for two months to buy roofing sheets for about RWF 10,000 (US\$15.87) during the rains. She used to belong to a ROSCA, but stopped because group members were unreliable. She’d like to join another group and contribute at least RWF 500 (US\$0.79) per week. She is banked, but not saving there. She opened the account to get a loan to kickstart her grocery business and is repaying on schedule.

Figure 21: Lorna’s balance sheet

Assets		Liabilities	
	4,500		4,000
House Balance	(US\$7.14)	Shop credit	(US\$6.35)
	3,000		45,000
Unpaid credit given to clients	(US\$4.76)	Bank loan	(US\$71.43)
	7,000		49,000
Total financial assets	(US\$11.90)	Total financial liabilities	(US\$77.78)
			-42,000
		Financial Net Worth	(-US\$66.67)

If Lorna had a restricted facility to put aside RWF 2000 (US\$3.17) per week (less than 5% of her income) for 50 weeks, she could accumulate 100,000 (US\$159) towards those educational expenses—even that partial lump sum would be very helpful.

Opportunity: Offer small-scale, restricted education-focused savings.

Product Opportunity 1: Restricted Education Savings

One of the biggest challenges respondents face is saving. They tell us that it’s really hard to hold onto cash in the house. It’s too easily spent or eroded by theft by other household members and visitors. They don’t necessarily see the value of saving in the formal sector, whose appeal comes mostly from big money loans. They need to offer more than the house, and that “more” could be commitment features that actually encourage and support savers meeting their school fees saving targets.

An effective educational savings product would:

- Allow installment savings or prepay savings plans;
- Be more attractive than the house through safety and discipline (perhaps free transfer to a school account via mobile money or a bank transfer);
- Enable small installments to be paid over mobile, which would be more cost effective and convenient for underserved households and more efficient for letting them track accumulation;
- Would offer tiered or flexible size contribution plans starting around RWF 200 (US\$0.32) /week, appealing all the way down to Ubudehe 2 & 3;
- Might incorporate text message reminders to help account holders keep on their savings schedules; and
- Could offer recurring deposit plans from salary accounts for workers and public servants.

The message would be, “Don’t sell your land tomorrow when you can save today.” A product that helps people save for school fees really accomplish two goals: keeping kids in school and holding onto the productive assets needed to that provide families with a little more income stability and better food security.

JOB 4. SMOOTH CONSUMPTION WHEN EXPERIENCING TEMPORARY INCOME SHORTFALLS

For the lowest income individuals, life is a daily struggle to meet basic needs. When we asked these individuals about financial stress, they told us that even small disruptions can be devastating.

“I only get money when I work, so how can I get money when I am sick?”

[Talking about buying some avocado stock that was rotten] “Sometimes in business you get a loss. There’s nothing you can do. Maybe you wait and if you are lucky you get a loan to get back in business.”

Figure 22: Respondents told us that financial stress comes from lost income—the job can be halted, one might fall sick, or a business experience a loss.



Individuals—particularly in Ubudehe 2 & 3—worry extensively about the financial implications of illness, even more because of the potential of losing a few days of income than out of pocket expenses. But, those out of pocket expenses can also be a strain. Mutuelle de sante is widespread, but excludes families with internal discord where the husbands refuse to participate. Additionally, even covered families can experience high costs due to lack of medicine or what they view as poor quality treatment at mutuelle health centers.

When faced with illness, our respondents turn to shop credit, borrowing from friends and family, and if they belong to an ASCA, borrowing from their group. These are all short-term sources of credit with no formal sector competition.

Figure 23: Tools used to finance health emergencies (FinScope)

	% Using in FinScope	% Using who borrow for medical emergencies
Friends and Family Borrowing	28%	67%
Shop credit	28%	45%
Ikibina loans	17%	32%

Health issues are not the only unexpected or disruptive events. When confronted with the unexpected, many sell productive assets, putting them further in the economic hole.

Figure 24: Financing strategies when a household experiences a major event

Events	% Experiencing in 12 mo.	Avg. Spent (median)	Notes	Most common device used
Marriage or divorce	22%	396,143 (240,000)	All weddings—daughters, cousins, sisters, brothers	Asset sale
Birth of child	17%	29,800 (15,000)	All their own children, except one grandchild gift	Divert wages/forgo consumption Asset sale
Death	14%	38,500 (35,000)	Parents, aunts	Asset sale
Household member admitted to hospital	32%	70,026 (9,000)	Household members only, many chronically ill people with flare ups	Asset sale, Accumulate arrears, Use savings
Major celebration	25%	42,000 (15,000)	Baptisms, graduations, confirmations	Asset sale Bank savings

Few respondents had enough financial assets to fall back on when they needed to do minor home repairs, bridge a gap in education funding, or meet other medium-sized needs. At the median, our respondents had financial assets that amounted to the equivalent of just 13 days' of income, and not all of those assets are liquid and able to be tapped in an urgent situation. Providers are unlikely to change consumers' savings rates in the short term...so a saving product is less likely to be successfully "hired" for this job.

Figure 25: Total financial assets in Diaries sample (RWF)

	Ubudehe 2	Ubudehe 3	Ubudehe 4	Ubudehe 5
Mean Financial Assets	18,582 (US\$29.50)	77,248 (US\$123)	66,621 (US\$106)	3,611,650 (US\$5,733)
Median Financial Assets	7,000 (US\$11.11)	26,100 (US\$41.43)	23,000 (US\$36.50)	1,446,600 (US\$2,296)

Opportunity: Offer safe enhanced health insurance, microsavings, and quick borrowing.

Product Opportunity 2: Lost income benefit micro insurance

Private providers could offer mobile micro-insurance providing a small cash benefit for lost days of work (verified via provider endorsement). This could be quite small, for example RWF 2000 (US\$3.17) per day for up to five days. Even at this small scale, a quick insurance payout of this size could really ease the stress of missing a few days of casual work when confronted with illness. Providers could partner with government clinics for verification of illnesses over a mobile endorsement system, automating claims. Such a system could also be an important means of building a bigger market for a wider range of insurance products.

Savings promotion is likely to be less effective than an insurance benefit, given low levels of precautionary savings and the difficulty of keeping liquid savings from being diverted to other needs.

Policymakers might also consider encouraging the mutuelle system to enable better recourse channels for excluded families who should be subsidized or covered even partially. There may be a role for organizations, like CARE, who build ASCAs to incorporate stronger “social savings” components and promoting uptake of a new mobile insurance product.

Product Opportunity 3: Quick micro-lending over mobile

Another potentially important product would be offering quick, impersonal cash-flow bridging lending via mobile money with bank backing (ex: MSHWARI). Here, formal providers can compete with informal, uncomfortable borrowing from friends and family. It would also be a flexible alternative to precautionary savings (of which there is little) and shop credit (which is less flexible and less private than desired). Credit worthiness and limits can be assessed by utilization of phone services opening a channel for small loans that help meet critical needs as they arise.

Based on values we observe being borrowed from friends and family, we would suspect that likely borrowing sizes would range from RWF 5,000-40,000 (US\$7.94-\$63.49). At the low end of the market,

this would likely be used to get through hard times with illness, lost work, and weather disruptions that limit business sales. Moving to Ubudehe 3 & 4, we might see some use of these types of loans for home repairs and boosts to business working capital. Individuals' familiarity with processes for assessing credit limits based on network operator activity could simultaneously boost transactions across the platform.¹¹

JOB 5. RETAIN PHYSICAL ASSETS WHEN FACE INCOME/EXPENDITURE BLIPS

And when somewhat larger needs arise, financial products can play a role in ensuring that assets are retained while the need is still met. Job 5 here is a little different than Job 1: Enable investment in business, housing, and productive assets. Here, we're not referring to acquiring new physical assets, but holding onto them when there might otherwise be pressure to sell them to meet some kind of urgent need.

Opportunity: Introduce physical asset substitutes.

Many respondents in category 2 had sold land (or their partners sold the land) and other valuable assets to solve a problem or to consume, and never got back that stable base to climb out again. Assets, particularly animals, provide some stability to one's income while also serving to cushion shocks:

"When you have cows, your children cannot contract kwashiorkor...you can sell the cow's offspring and still remain successful."

"When you rear goats, there are no worries a person has, since if you have a problem, you can sell 2 or 3 to get money to solve your problems."

Those assets are getting sold for things like celebrations, births, someone being admitted to hospital, or meeting school fees needs (**Figure 24**). But, these are not always easily replaceable assets and can be assets that were helping generate income—land, motorbikes, cows.

While goats are viewed as a good financial investment to help cushion shocks, many are unable to keep goats in their communities because they are considered a nuisance by eating others' crops. And,

¹¹ A product of this nature should learn from early experience with M-SHWARI about accurate marketing and the importance of transparency. These early lessons are documented well here: http://www.microsave.org/briefing_notes/briefing-note-139-m-shwari-market-reactions-and-potential-improvements and here: <http://blog.imtfi.uci.edu/2013/02/a-lot-of-hope-and-some-hiccups-with-m.html>

respondents report that goats are vulnerable to theft. To keep them safe, they are brought into the home at night. The inconvenience and smell become irritating:

“Goats and chickens and rabbits can all be stolen easily, and easily taken by sickness. They will even break down the wall of your house to steal goats!”

Saving in the house, the most popular saving strategy, might be used to help cope with risk, but that savings too easily gets eroded. Respondents are not able to accumulate much. The median balance in the house is just RWF 4,000 (US\$6.35).

Individuals are left with no good options for coping with medium-sized risks.

Product Opportunity 4: “Lucky goat”

The “Lucky Goat” would be a physical asset substitute, offering financial “packets” of less liquid savings via small “cd” type of instrument, or if regulation allows, capitalization title. This device should be about the value of a goat at maturity (RWF 12,000-20,000; US\$19.05-\$31.75). A prize element would increase attractiveness on low end of market, providing an extra incentive to save. Marketing could be around “Better than the real thing,” or “The goat that needs no feeding and can never be stolen.” Ensuring that it can only be cashed in completely as a single unit would help individuals ensure the pocket of savings would be large enough to help them with a real problem and resist small withdrawals for less important needs.

JOB 6. CUSHION ONESELF FROM DOMESTIC UPHEAVAL

Our team found that many women in our study were in economically precarious positions, in part due to the decisions of spouses to sell family assets, no longer contribute to household budgets, separation, and ongoing threats of violence. The most recent Demographic and Health Survey in Rwanda found that 56% of women who had ever been married had been physically abused by their spouses. In our sample of XX female respondents, 7 were de facto separated from abusive husbands, but continuing to cohabitate or live just next door for lack of alternatives or financial capability to start over. Divorced or separated women were exceptionally vulnerable, trying to make ends meet while being the sole caretakers of children and with few productive assets of their own to provide a stable economic base. Two respondents live in perpetual fear of being attacked or killed by former husbands. Other women have been left very vulnerable, taking major economic steps backwards, when male relatives sold off family assets and abandoned mothers to their own devices. Women’s vulnerability appears to be perpetuated by lack of substantial, long-term financial assets.

“Agnes” lives with her husband but hasn’t spoken with him since he sold their last cow and disappeared for months. She has no idea where the money went. He once disappeared for two years.

She once saved up 20,000 in her suitcase in the house. Her husband broke down the door to steal it.

She used to earn about 10,000 per month from vegetable production in swampland until the husband sold the land. Now she gets by mostly doing casual work in others’ farms.

“There are many times when the kids have not eaten, and he’s just there, inside, with money.”



“If God gave her money, she would put on a good door to be safe from her husband. She said, ‘When it rains, my neighbors come to check to see whether he didn’t come to kill me.’”

“She keeps her national identity card with a friend, because her husband promised to throw it in the toilet.” Woman 1

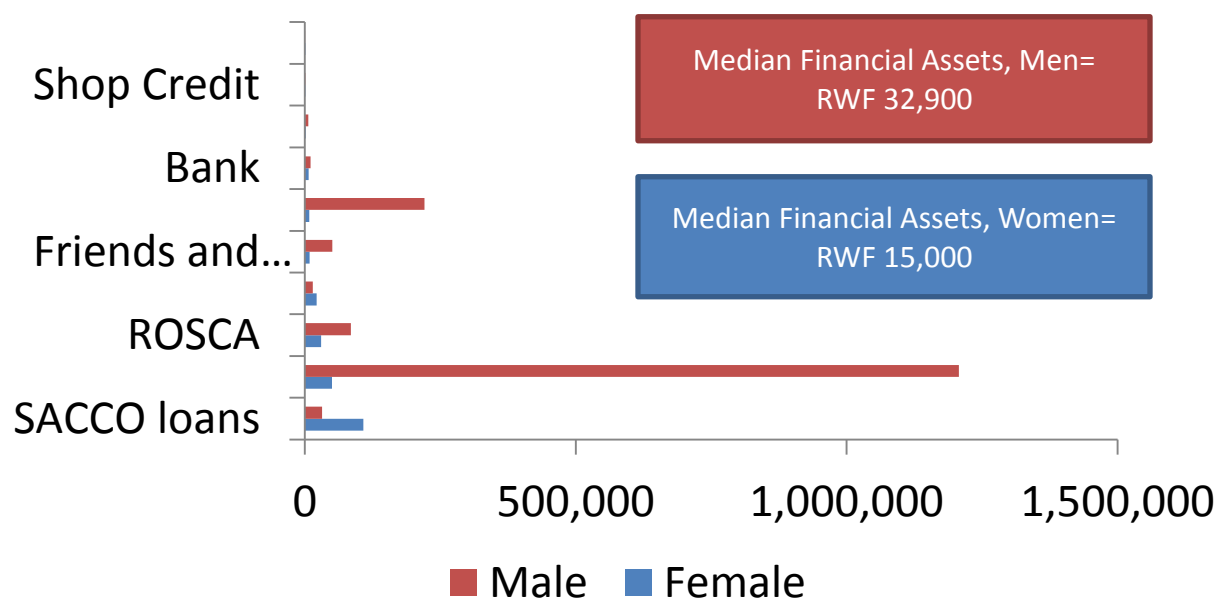
If she won 600,000, she would buy a piece of land and put a door on the back of the house to keep her violent ex-husband from coming in and attacking her. Woman 2

56% of women between 15-49 who have ever been married have experienced physical abuse at the hand of their spouse. RWDHS 2010

Women in our study tend to be lower income and have smaller land sizes than men. But, they also tend to be more active money managers. They are more likely to be using a range of informal devices: shop

credit, ikibinas, and money guards. While a larger share of men are using formal products: banks, SACCOs, and mobile money. Even if women manage their money actively, they have less of it. Men have larger balances than women in nearly every device used with the exception of SACCO loans and accounts.

Median User Balance by Device (RWF)



This may reflect a difference in financial management priorities, in which more women are preoccupied with meeting the family's day to day needs and men are thinking about growth and larger scale needs.



But, when women have a big need of their own, there's nowhere to turn. Having a financial asset of their own would have enabled many of these women to move out or at least grow businesses as they put their lives back together.

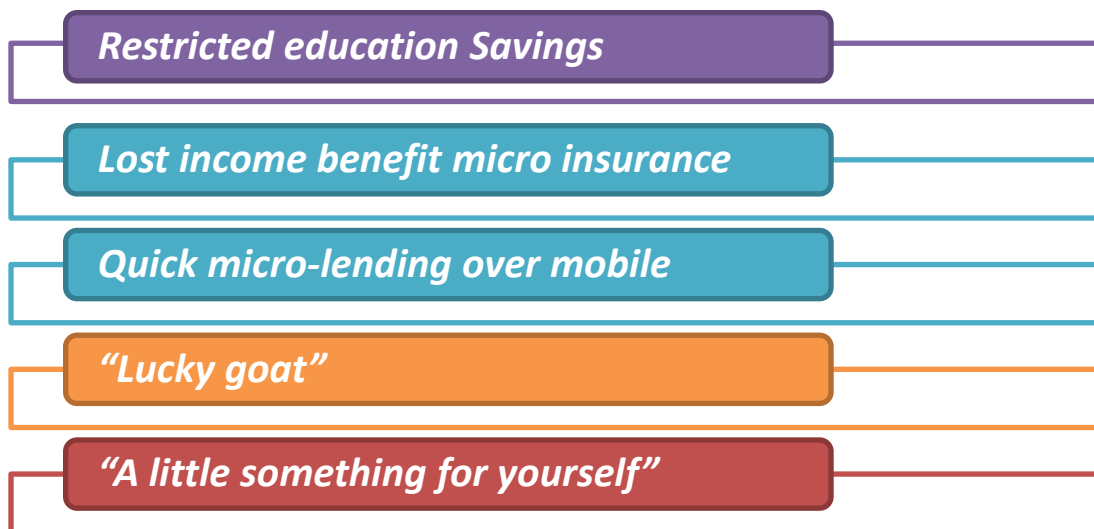
Opportunity: Create long-term restricted savings an market it to parents and young women facing both future opportunities and an uncertain future.

Product Opportunity 5: "A little something for yourself"

The formal financial sector could make a real difference for women by promoting a long-term savings device with incentives/restrictions to keep funds locked up, but also allowing top-up deposits. Some features to consider would be 30 day withdrawal notice requirements, interest bonuses graduated by years of maturity, or fixed deposit-like qualities. A product like this could appeal especially to parents (not necessarily just of girl children) around providing security in an uncertain world. It would allow women themselves or their parents to deposit large lump sums at important life moments or upon receipt of large inflows (like an ikibina payout or asset sale) as a way of ensuring future security. Some scenarios around which the provider could market include: sending child to college one day, buying land, coping with divorce, or coping with drought. The combined effect of marketing and incentives would keep funds tied up and used for "important" emergencies or investments. One big difference here would be a focus on marketing this as an individual product, with no joint accounts allowed. As a base at the low end, providers should think about a device that matures with a value around RWF

100,000 (US\$159). This would be quite big and meaningful for low-income groups. The message sent by this product would be something like, “Because we never know exactly what tomorrow will bring, it’s always best to have a little something for yourself.”

Figure 26: Summary of product ideas



5. IMPLICATIONS BEYOND PRODUCTS

New products can go a long way towards making formal financial services more relevant for more Rwandans. But, they’re not enough. Providers need to consider better ways of serving their clients to retain their trust and ensure their interest in new products. And policymakers can do much to support these advancements and ensure that the benefits of a more dynamic financial sector accrue to all segments of society.

Formal financial sector providers should consider, in particular:

- **LENDING PROCEDURES AND POLICIES.** Reconsider guarantor relationships for female borrowers and recognize the separateness of the financial lives for many married couples.
- **MARKETING.** Market safety of MTN Mobile Money/Tigo Cash. Right now, many feel it’s not a safe place to store money, and they instead keep short-term savings in the house, where temptation very high. Mobile money today is viewed as exclusively useful for payments rather than small store of value.
- **ENSURE SERVICE QUALITY.** Providers need to build client trust if they want to retain their customers who now have many options to choose from. They can make strides towards this by:
 - Making charges, deductions, penalties clear and transparent. Respondents express frustration more at the lack of clarity around fees and penalties than of the rates

themselves. Without a clear understanding of these product terms, respondents are not able to adjust their behavior to respond to the incentives in place and they quickly lose trust in and loyalty to their provider. Transparency can come in many different forms, including easily readable tariff charts but also quick and free feedback systems like SMS verifications of transactions and charges and free mobile balance checks.

- Providing clear loan eligibility requirements and timelines. This is another area where clarity gains trust and loyalty. Helping consumers understand how they qualify for a loan, the specific processes that will be undertaken, and about how long each step will take can go a long way in helping them better plan for their financial needs. Respondents often spend years trying to become eligible for a loan and can wait many months for the loan to be processed. Their needs and objectives can change during those times. Business opportunities shift. Clarity on process builds confidence, but also helps clients plan for and use loans well.
- Disclosing processes for credit assessments. Similarly, being forthright about how credit worthiness is assessed with save clients from making unnecessary transactions just to show account activity if that is not a true requirement and will retain trust if field-based assessments are conducted. Some respondents are quite uncomfortable with institutions interviewing neighbors and friends to assess credit worthiness. If this is a necessary component of credit reviews, informing prospective borrowers can enable this without jeopardizing the client relationship.

Organizations forming and supporting savings groups can also play a role in helping product innovations reach and benefit underserved consumers:

- **DECREASING GROUP RISK.** ASCAs were not as risky as other informal financial devices in our sample, but they were not risk free. Some respondents recounted incidents in which the group member holding internal funds was robbed. That member had to find a way to repay members and members either had to wait for a long time to be refunded or lost a portion of their savings. Introducing groups to the best options for convenient electronic storage of extra cash—for example, through mobile money or an accessible bank account—could help reduce risk and make these groups even more helpful for members in meeting their financial goals.
- **INTRODUCING NEW SERVICES THROUGH GROUPS.** Respondents told us that groups are helpful not just for their financial role, but also because they are platforms for discussing community and social issues. There are non-financial support and learning benefits. This offers promoting organizations an avenue for introducing complementary financial products that may help members meet financial needs that the group cannot address very well. Groups can offer members a chance to do low-risk experimentation as individuals and share their experiences with members so that the group platform enables better, faster testing of new products that might be beneficial for members.

Policymakers ought to keep in mind the enhancing role that they can play by:

- **PERMITTING WELL-CONSIDERED EXPERIMENTS.** New products and service models really are necessary to move from access to usage. This may mean enabling new kinds of products that may not have been tried before. Experiments are important in developing meaningful products.
- **ENSURING ACCOUNTABILITY KEEPS PACE WITH GROWTH.** Consumers already express uncertainty about the stability of SACCOs and MFIs. If they incur consumer-borne losses or fail holding consumers' savings, this is not only devastating for low-income households, but also jeopardizes inclusion objectives. Such incidents can cause consumer backlash and long-lasting mistrust of the financial sector.
- **PROPERTY REGISTRATION.** While it was not the focus of our study, some observations suggest that the “Kuvanga Umutungo” registration system could be having unintended negative repercussions for women. It may be worth studying the implementation and effects of the system to ensure that the foreseen benefits for both men and women entering marriage are maximized and that the financial sector's promotion of asset accumulation for female clients achieves its intended outcomes and is able to weather the disruptions that may come during separation and divorce.

6. CONCLUSION

Having tackled access challenges already, Rwanda's financial sector must now find ways to provide value to clients beyond the traditional sweet spots of big money payments, storage, and loans. This has led to formal institutions being used only intermittently for a set of needs that's only occasional. The challenge is that becoming more relevant will require product innovation to provide services that are higher frequency and lower value. Keeping costs reasonable may require new ways of doing business—such as extensive use of mobile channels. The formal sector has real opportunities to compete and outdo informal alternatives that aren't working very well for Rwandans today. But, if they are to win customers they will need to keep prices low and improve on service quality. On key dimensions of service quality—reliability, privacy, and transparency—formal providers don't consistently perform well.

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Appendix A: Power of Participant Photography

Often without even trying, structure a research imposes around his or her questions point respondents in a certain direction. The researcher—often inadvertently—circumscribes the range of appropriate results, potentially missing out on the issues and considerations that matter most to respondents. Non-directive research methods, particularly those drawing on images, offer a chance to better understand respondents' true thoughts on different topics.

In this project, we provided respondents with a camera or a smart phone with a camera app and gave them a series of three weekly assignments:

1. Take 5 pictures about how people save
2. Take 5 pictures about financial stress
3. Take 5 pictures about financial success

The pictures serve as a starting point for a discussion around the topic. For a moment, we are able to see what the topic looks like through the eyes and words of the respondent. A few examples of pictures and the narratives around them are provided below.

Picture 1: “Poor-looking mud house”



Researcher's notes on the discussion:

- This is house surrounded by bare land with no crops.
- It is a house belonging to a big family and every coin they get goes to foods and that means with no other source of income, he is much stressed.

- The only way to get out is working hard and trying to get other sources of income for example selling produces like sorghum, tomatoes and others.
- A house of this nature doesn't even have cement and you an even contract jiggers¹². It feels like sleeping in the bush. Only 100,000 FRW can help him get a small business and earn little extra income.

Picture 2: Unity and reconciliation Association member's book



Researcher's notes on the discussion:

- He took a picture of a book they use in their unity and reconciliation association.
- It represents lack of unity among neighbors, which can prevent people from achieving their targets. For example; if you are not in good terms with other people, they can't buy from your shop.
- People just need to be sensitized especially through associations like theirs. It also gives people a platform to talk which can help them say whatever they have at heart.
- It can be achieved, though not 100%. Still, what can be achieved can be promising.
- It mostly affects those who killed people in the 1994 genocide because they tend to feel guilty of what they did.

¹² "Jiggers" are parasites that burrow into the feet.

Picture 3: Clouds



Researcher's notes on the discussion:

- It is a picture of the clouds. It represents weather. He took the picture because their agriculture work is mostly affected by weather.
- They did not get enough rain last year, and it affected their produce. The main source of their finances is the agricultural produce.
- He states that one needs like 2 million to afford using the irrigation means and fertilizers in order to cope with the weather problem.
- He stressed that he cannot afford to get money by himself and yet still he has to raise money for school fees and also cater for the home needs.
- People of their calibre can't easily fight this weather problem given the size of their land in line with its usability.
- It mostly affects farmers in the rural areas who don't have the money to buy fertilizers and also do irrigation.

Picture 4: A shop



Researcher's notes on the discussion:

- It is a picture of a shop in their small trading centre close to their home.
- It represents business and he took this picture to portray the lack of capital.
- He thinks if he can have capital to do business, he can get a lot of money.
- He needs at least 1 million to solve the stress and manage to have at least all the stock people around you want to buy from a shop.
- It is still hard for him to get a loan for business because he is now taking a school fees loan from SACCO to support his son. So he can't take two loans at the same time.
- He took a SACCO loan for 80000frw which he took to pay for his son in secondary school as he had spent what he had on the one studying at the university.
- It is very hard when you have the business plans in your head, but don't have what you need to start them up.
- People can mostly recover from this stress through taking loans or get donations.
- It mostly affects the uneducated who don't have permanent jobs and also don't take loans.
- Their neighbors think he is rich because he has cows and employs them to dig for his farm yet he also has others he calls rich.
- "I don't waste my money on local alcohol like them and they think because I'm rich, I don't take those local beers," he explained.

Picture 5: Stranded Lorry



Researcher's notes on discussion:

- It is a picture of a long truck stranded on the tarmac road near his [business]. It is stranded because it had a mechanical problem.
- This represents the stress brought up by different issues coming up that keep your business from operating. At this point, you are expecting to get income from it, but you end up using what you have to repair it.
- That reduces what people have as they use what they have on covering the loss.
- It mostly affects car owners but also anyone else because they may delay different processes like carrying goods for other people.

Picture 6: Bunches of banana

Photo damaged; Not available.

Researcher's notes on discussion:

- It is a picture of a bunch of bananas. It represents the stress of not having money to feed their families. One just buys a bunch of banana not the whole banana. "Buying a teacher's share," she explained, using their local saying. It means that one can only afford to buy few which are common for teachers because they have little money.
- One can recover from such a stress through trying other sources of income like business.
- One can also talk to other people and know other things to do in order to get money.
- It mostly affects women because they cater for the family while men are ever away from home.

Picture 7: Bicycle



Researcher's notes on discussion:

- If she had a bicycle, she can give one to her son and he do ride it for cash (bicycle bodaboda). This represents lack of many making ventures. A bicycle can become their source of income and curb the financial stress.
- She needs much money to overcome this stress which she can't even estimate and she only hopes that God can provide them with the money.
- One can recover from such stress and it happens to many people. These photos represent the financial stress to very many people who have no sources of income.

Picture 8: Garden



Researcher's notes on discussion:

- It represents the stress of not having enough food. If she had a garden, she could grow different types of crops so that her children can get enough food.
- Her children are ever hungry. She counts everything on God because she can't afford it by her own.
- There are very many with that stress.
- She based every point on solving personal needs.

Picture 9: Door made of iron sheeting



Researcher's notes on discussion:

- It is a picture of her house door. She is very much stressed that her husband is ever warning her that he will kill her. The husband wasted all their family resources. They sold their last home house and decided to buy the one the live in.
- He deserted his family for another wife and wants to sell the respondent's house and do business.
- He also sold the first one with the same excuse but ended up losing the money, so she can't let her children be there with no house to live in.
- She thinks of having a good door for herself, because she is afraid that her husband can come and kill her as he says every time. If God gave her money, she can put in a good door in order to be safe that the husband won't attack her.
- *"When it rains, my neighbours come to check in to see whether he didn't come to kill me."*

Picture 10: Depot of sorghum



Researcher's notes on discussion:

- According to her, if one had all of the above and as well as a depot of sorghum for the business, then he/she would be successful. A successful person doesn't beg, doesn't have many problems and stress. A successful person doesn't think about what to eat at night, he has good skin and wears good clothes.
- She believes she is not successful because she doesn't have what they have, isn't smart like them and doesn't look like them. Her children don't look like their children.
- She believes the only way to get there is through her children.

Picture 11: A cow



Researcher's notes on discussion:

- It is a photo of a cow though not clear. It represents a stress of not having a cow.
- She is suffering from ulcers so she needs milk every time. The cow can help her solve this stress of getting milk and on top of that, she can afford to get manure for her garden. They once rented a cow from someone for some few days in order to get manure but the owner took it back.
- She needs like 300,000frw to recover from this stress as it can help her buy the exotic breed cow because it is the one she likes.
- The only way she can get a cow is through Girinka programme If possible but she can't buy it for herself as she doesn't expect to raise that sum of money. She only counts on God but she has no hope when it comes to her finding her own means. "If you get to an extent of borrowing a mere bull so that you may get manure, it shows you the extent of how stressful it is...Once Mrs. Kagame gave out good cows to people around our sector and I was wondering how they wrote those to get cows and I wished I was among them" She said.

Picture 12: A coin placed on the floor



Researcher's notes on discussion:

- It is a picture of a coin placed on a floor. She took this picture to show how lack of money (capital) is so stressing.
- She sometimes fails to get money to pay workers in her field so that she may get large quantities of produce as she can't afford to dig alone.
- She can produce good yields if she can hire many laborers on her land. She also needs to buy fertilizers for the garden.
- She needs to invest like 200,000frw and can get income close to 500,000frw from the sale of the yields.
- She can also cultivate her land at her family place which she doesn't cultivate and it's so big.
- The only way she can get the money to help her recover from this stress is by taking a loan from SACCO though the fact that you pay back every month is a hindrance to her.
- If it was possible to pay in instalments, like four instalments a year then it could be easy for her.

Picture 13: Small land



Researcher's notes on the discussion:

- It is a piece of land with maize and beans planted in. It represents a small land. It reflects people who have small agricultural land and have to work for others to get food because they can't get food in their gardens. With a big land you grow crops and get much harvest unlike a small piece of land.
- Those who get money while having a small piece of land have other income sources.
- One can only recover from it from digging for other people and get some cash which he/she can raise and get capital to do other businesses.
- He/she needs like 1 million so that he can set up a shop. You can't just buy land. You first do business and get profits which you can use to buy land.
- It mostly affects all people who are in rural areas who don't have land and who don't have people sponsoring or supporting them.

Picture 14: A good house



Researcher's notes on discussion:

- Definition of financial success: A financially successful individual must have a good house. She says for her to be successful, she must try and own one.
- A financially successful individual must also have a banana plantation, cows, a tree plantation, multiple plots of land, cow that produces milk, be able to dress well, own a good pair of shoes and have nice skin as a result of using good skin products.
- One can remain financially stable if he/she avoids wasting resources and is not a drunkard.
- She believes she is not financially stable because her husband wasted their resources and sold their home. After that, she went back to nothing and she believes she can never get back to her level.