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The impact of Covid19 pandemic on Household saving behavior in Rwanda

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ABSTRACT
The novel coronavirus SARS-Co-2 that caused the Covid-19 pandemic has emerged as an uncommon global health crisis in late 2019 and brought socio-economic challenges in different parts of the world. Its impact has reached both developing and developed countries, changing various aspects of daily life. While the main concern was to mitigate the public health consequences caused by the virus, the pandemic's consequences surpassed healthcare, spreading into social, economic and behavioral dimensions. In the thousand hills country, the government of Rwanda faced these challenges significantly, affecting household saving behavior. This study investigates how the Covid-19 pandemic influenced saving behaviors among Rwandan households. It explores the factors that contributed to changes in saving patterns and the extent to which these changes impacted the financial stability of households. The findings reveal that the pandemic led to increased uncertainty and financial insecurity, prompting households to adjust their saving strategies. This paper concludes with recommendations for policy interventions to enhance financial resilience and support households in times of crisis.

Key words: Covid-19, Pandemic, Household, Saving, Income

I. INTRODUCTION

The novel coronavirus SARS-CoV-2 that caused the Covid-19 pandemic has emerged as an uncommon global health crisis in late of 2019 and brought socio-economic challenge in different parts of the world. Its impact has reached on both developing and developed countries and changing various aspects of daily life. While since the main concern was to mitigate the public health consequences that caused by the virus, the pandemic consequences surpassed healthcare, spread throughout into social, economic and behavioral dimensions. In the thousand hills country, the nation of Rwanda faced these intricate consequences, not only the health crisis but also with the economic crisis and its implications for financial wellbeing of the people of Rwanda.

The thousand hills country, Rwanda that known for its commitment to sustainable development and tremendous post-genocide recovery, has been constantly progressing economically in last decades. However, like other different nations, that was not an immunity to the Covid-19 pandemic. The pandemic demanded a series of measures to mitigate the consequences including travel restrictions, lockdowns, curfews and social distancing that aimed at curbing the spread of the virus. These preventions while crucial for public health, caused economic disruptions that affected several sectors of the Rwandan economy.

One critical aspect of individual and household economics significantly affected by the Covid-19 pandemic is the saving behavior of Rwandans. Saving is one of the critical economic activity, serving as a catalyst against financial shocks and a buffer for investment and economic growth for future as well. The pandemic with its linked unpredictability, changes in consumptions patterns and income losses, employability, has the potential to alter how people save in Rwanda. To get this knowledge of these changes in saving behavior is critical not only for individual wellbeing basis but also to the economic recovery and resilience of the nation in general.

This research paper aims to investigate the impact of the Covid-19 pandemic on household saving behavior in Rwanda. We aim to explore how the pandemic has affected the propensity to save, the factors that have mediated the changes and the methods employed for saving. By shedding light on these dynamics, we hope to contribute to the broader discourse on the socio-economic consequences of the pandemic, offering insights that can inform policy decisions and interventions aimed at bolstering economic resilience in Rwanda and similar contexts.

II. LITERATURE REVIEW:

2.0. Literature Review: Impact of the Covid-19 Pandemic on Saving Behavior in Rwanda

The Covid-19 pandemic has had profound effects on societies and economies worldwide, including Rwanda. One significant aspect of these effects is the impact on saving behavior among Rwandans. This literature review aims to provide an overview of existing research and insights into the saving behavior of Rwandans during the Covid-19 pandemic.

2.1. Saving Behavior and Economic Disruptions

There are several economic disruptions globally that have been resulted by the Covid-19 pandemic. In Rwanda, different measures have been taken like lockdown, social distancing, school closures and economic slowdowns to curb the spread of the virus easily which had implications for saving behavior and income. In low-income countries, the study conducted by Morduch and Ravi (2020) underscores that households tend to boost savings as a precautionary measure during periods of income uncertainty. This observation resonates with theories proposing that individuals modify their saving habits in reaction to economic uncertainties.

According to the World Bank's assessment (2020) of the economic repercussions of Covid-19 in Rwanda, the pandemic caused disturbances in employment and income, particularly within the informal sector. This upheaval likely impacted the saving patterns of Rwandans (World Bank, 2020). For example, during the pandemic, more than 50 percent of households in advanced and emerging economies fail to sustain basic consumption for more than three months due to the income losses by World Bank report (2022). This has reduced the household saving during the pandemic. Nevertheless, post-pandemic, households have gleaned insights into spending judiciously and increasing savings to preempt potential challenges that may arise in the aftermath of the Covid-19 pandemic.

Moreover, the presence of savings accounts played a crucial role in how households managed economic shocks during the pandemic. According to a country-wide community survey, households with formal savings accounts were better equipped to handle the economic downturn. However, many struggled to maintain these accounts due to reduced incomes according to Uwimana et al. (2023). Further analysis using a microsimulation approach indicated that the pandemic significantly impacted household incomes and poverty, highlighting the necessity of savings for economic resilience (IFPRI, 2021)

According to the study of Mascagni & Lee (2022) revealed that Inflation dynamics during the pandemic also played a role in shaping household economic behavior. Research examining monthly consumption data in Rwanda revealed that inflation rates influenced the purchasing power of households, thereby affecting their ability to save. Overall, the socio-economic effects of COVID-19 on household savings in Rwanda were profound and varied, emphasizing the importance of localized studies to understand the diverse impacts and coping mechanisms employed by different households.

2.2. Government Interventions and Saving Behavior

Government interventions have played a crucial role in shaping saving behavior in Rwanda during the COVID-19 pandemic, as policymakers responded to the economic challenges posed by the crisis. Research by Rusa et al. (2021) has examined the effectiveness of government measures, such as cash transfers and food distribution programs, in mitigating the impact of the pandemic on household finances. These interventions aimed to provide immediate relief to vulnerable populations and stimulate economic recovery, thereby influencing saving behavior among Rwandan households.

Moreover, the Rwandan government implemented various fiscal stimulus measures and social assistance programs to support individuals and businesses affected by the pandemic. Initiatives such as the Economic Recovery Fund and performance contracts known as Imihigo aimed to provide financial support to businesses and promote economic resilience. Additionally, in times of COVID-19 pandemic, cash transfer programs like social protection cash transfer reached vulnerable households, providing them with a safety net amidst income loss and economic uncertainty according to World Bank (2020).

The impact of government interventions on saving behavior in Rwanda during the pandemic depended on factors such as the design, targeting and accessibility of these programs. Studies such as Nganji et al. (2020) have revealed the importance of ensuring the inclusivity and effectiveness of social protection measures, particularly for marginalized communities. Efforts to streamline application processes, expand coverage and improve targeting mechanisms can enhance the

International Journal of Advances in Engineering and Management (IJAEM)
Volume 7, Issue 05 May 2025, pp: 71-83 www.ijaem.net ISSN: 2395-5252

reach and impact of government interventions on household savings.

Furthermore, transparency and communication regarding government interventions played a significant role in influencing saving behavior during the pandemic. Clear and consistent messaging about available support measures and eligibility criteria helped build trust and confidence among beneficiaries. The studies conducted by Uwera et al. (2020) emphasizes the importance of effective communication strategies in promoting awareness and understanding of government policies, thereby empowering individuals to make informed decisions about saving and financial planning.

So, government interventions have had a significant impact on saving behavior in Rwanda during the COVID-19 pandemic, shaping household financial resilience and economic recovery efforts. By implementing timely and targeted policies, the Rwandan government has sought to alleviate the adverse effects of the crisis on household finances and promote a culture of saving and financial preparedness. Ongoing efforts to enhance the inclusivity, accessibility and transparency of government interventions are essential for supporting vulnerable populations and building a more resilient economy in the post-pandemic period.

2.3. Financial Literacy and Inclusion

Financial literacy is widely recognized as a fundamental factor influencing saving behavior, as individuals with higher financial literacy levels are more likely to engage in responsible financial practices, including saving and investing. Studies such as Lusardi and Mitchell (2014) have demonstrated a positive correlation between financial literacy and saving behavior across various contexts. In Rwanda, efforts to promote financial literacy have gained momentum in recent years, driven by a growing recognition of its importance in enhancing economic resilience and empowering individuals to make informed financial decisions.

Rwanda has made significant strides in improving access to financial services, particularly for underserved populations. The establishment of the National Bank of Rwanda's Financial Literacy and Consumer Protection Department underscores the government's commitment to promoting financial education and empowerment. Initiatives such as the Umurenge SACCOs (Savings and Credit Cooperatives) have expanded access to formal financial services in rural areas, providing communities with a platform to save, borrow and invest locally. Research by Nganji et al. (2020) reveals the positive impact of these initiatives on financial inclusion and saving behavior among marginalized groups in Rwanda.

Furthermore, Rwanda's National Strategy for Financial Education (NSFE) aims to enhance financial literacy among its citizens through targeted interventions across various sectors. The NSFE's emphasis on integrating financial education into the school curriculum and leveraging technology for outreach reflects a holistic approach to building financial capabilities from an early age. Studies such as Gasper et al. (2018) have underscored the importance of tailored financial education programs in improving saving behavior and promoting financial inclusion, particularly in low-income setting like Rwanda.

Despite these efforts, challenges remain in ensuring widespread financial literacy and inclusion in Rwanda. Limited access to formal financial services in remote areas, coupled with low levels of digital literacy, poses barriers to financial empowerment for certain segments of the population. Additionally, the COVID-19 pandemic has underscored the importance of adapting financial education initiatives to address emerging challenges and vulnerabilities. Research by Rusa and Nzeyimana (2021) highlights the need for flexible and innovative approaches to financial literacy in the face of evolving economic dynamics and technological advancements.

Financial literacy and access to financial services play a crucial role in shaping saving behavior, with implications for economic stability and individual well-being. Rwanda's efforts to improve financial literacy and inclusion reflect a proactive approach to empowering its citizens with the knowledge and tools to make sound financial decisions. By building on existing initiatives and addressing persistent challenges, Rwanda can further enhance its financial ecosystem, fostering a culture of saving and investment that contributes to sustainable economic development and poverty reduction.

2.4. Cultural and Social Factors

Cultural norms and social support systems can also influence saving behavior in Rwanda. It is essential to consider how these factors interact with the economic shocks caused by Covid-19 pandemic.

In Rwanda, cultural norms play a significant role in shaping saving behavior among its population. Studies such as Uwera et al. (2018)

have revealed the importance of cultural practices like community work (Known as Umuganda) and performance contracts (Imihigo) in fostering a sense of collective responsibility and solidarity. These cultural values encourage individual to prioritize community welfare and long-term financial planning, which can influence their saving habits even in the face of economic shocks.

Moreover, Rwanda's social support systems, including informal savings groups like Umurenge SACCOs, contributes to the resilience of saving behavior amidst economic challenges. Mutamba et al. (2020) highlighted how these community-based financial networks provide not only financial assistance but also emotional and social support to their members. During the COVID-19 pandemic, these networks have proven invaluable in helping individuals cope with income loss and uncertainty, thereby sustaining their saving practices.

However, the economic shocks induced by the COVID-19 pandemic have tested the resilience of Rwanda's saving culture and social support systems. Research by Rusa et al. (2021) suggests that while traditional values of solidarity have helped mitigate the impact of the pandemic on saving behavior, they have also faced strain due to disruptions in income and employment. Individuals may find it challenging to uphold saving commitments when faced with immediate financial hardships, leading to a potential erosion of long-standing cultural norms around saving.

Understanding the intricate interplay between cultural norms, social support systems and economic shocks is essential for devising effective policy responses to safeguard saving behavior during crises. Iyare and Kehinde (2020) emphasize the need for policymakers to tailor interventions that leverage existing cultural practices and social networks to mitigate the adverse effects of economic shocks. Strengthening community-based savings groups, expanding access to financial education and providing targeted social assistance can help bolster resilience and promote sustainable saving behavior in Rwanda amidst the ongoing pandemic.

The nexus between cultural norms, social support systems and economic shocks significantly influences saving behavior in Rwanda, particularly in the context of the COVID-19 pandemic. While traditional values of solidarity and community support underpin resilient saving practices, they must be complemented by targeted policy interventions to address the unique challenges posed by economic crises. By leveraging Rwanda's rich cultural heritage and robust social networks, policymakers can foster a conducive environment for sustainable saving behavior, ensuring financial well-being for all segments of society.

III. METHODOLOGY

Panel datasets derived from frequent phone surveys have recently proven instrumental in offering fresh insights during crises, aiding policymakers in crafting suitable responses. A notable example is the World Bank's Impact Analysis of the Ebola Crisis in Liberia (2014). In alignment with this approach, I utilized IPAR existing database encompassing 3,000 representative households in Kigali and 7,000 households across the six Secondary Cities districts for quantitative data. The entire household set from this database underwent interviews in 2019, establishing the baseline or inaugural wave of panel datasets. These datasets are comprehensive, capturing household characteristics and facilitating targeted group studies, including an examination of women's circumstances.

The initial survey utilized phone interviews, demonstrating their effectiveness and viability comparable to face-to-face interviews when administered correctly (Garlick, Orkin, and Quinn 2015; Ballivian et al. 2013). I drew on its expertise in phone interview techniques, aligning with the best practices recommended by the Abdul Latif Jameel Poverty Action Lab (J-PAL) at the Massachusetts Institute of Technology (MIT) for conducting phone surveys.

Information was gathered through close-ended questionnaires, crafted by researcher. To collect qualitative data, I carried out key informant interviews (KIIs) with Mayors and Focus Group Discussions (FGDs) at the cell level in both secondary cities districts (Musanze, Nyagatare, Rubavu, Rusizi, Huye and Muhanga) and Kigali City (Kicukiro, Nyarugenge and Gasabo). The questionnaires underwent validation by a steering committee. Thereafter, I conducted an analysis, generating descriptive statistics, trends, and relevant tests on various dataset variables.

The data analysis was carried out using Stata software for quantitative data and triangulation for qualitative data.

IV. FINDINGS AND DISCUSSIONS

4.1. Analysis of impact of Covid-19 on the household Saving

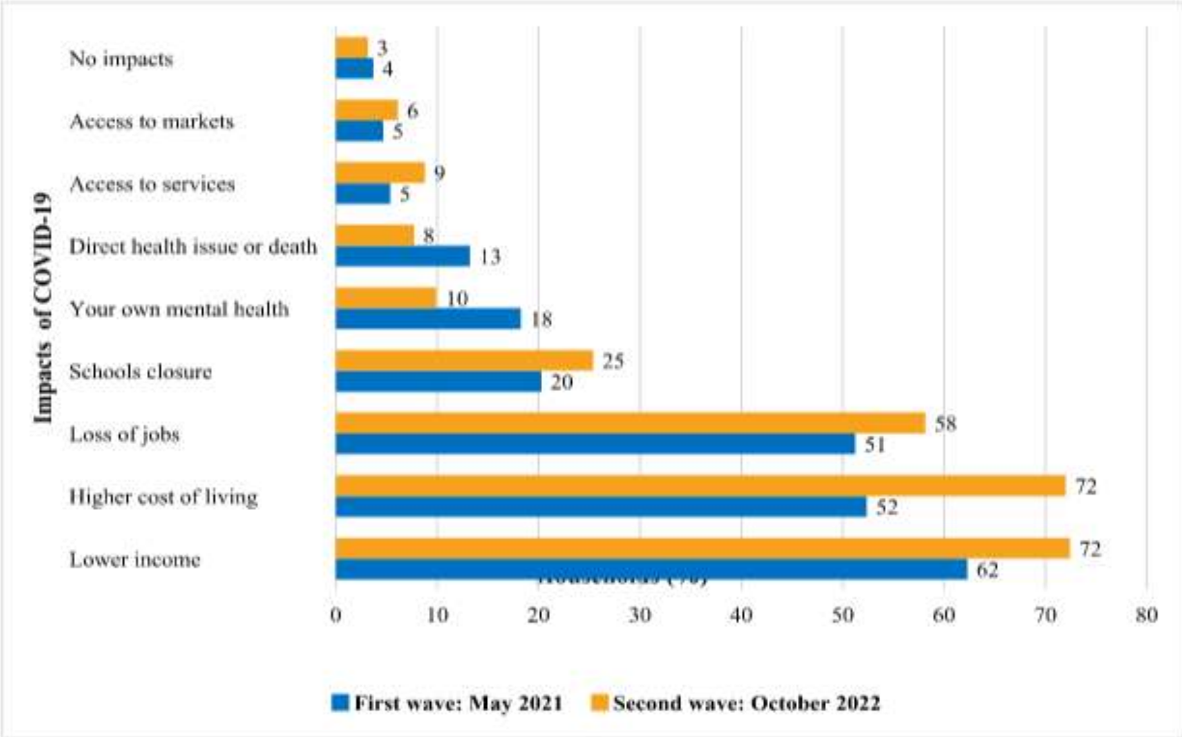

Figure 1: Three most Important Impacts of COVID-19

Source: Researchers' plot using primary data, 2024

The findings show that the lower income, high cost of living and loss of jobs have been still major impacts when the pandemic was ended. There are other several impact mentioned on the below figure come as the pandemic consequences of those three. Qualitative research analysis indicates that in the next paragraph. The pandemic has affected the household saving due to the prevention measures in the country.

"The closure of transport within the country and international travels have caused a raise in the cost of needs (KII, districts). Living without gaining income but still in charge of providing for families has disturbed mentally some parents" (FGD, adults men and women 2022). "Lockdowns, stay in the district, etc have been barriers to different people accessing services. Regarding inability to access the marked and mental health come secondary because they are dependent on lover income in general." (KII, Village Leaders 2022)

The COVID-19 pandemic led to increased saving behaviors among households due to economic uncertainty and lockdown measures. The literature reviews indicate that the pandemic stimulated a preference for savings as people faced income uncertainty and reduced spending opportunities (Anisoara, 2022 & Ascaryan and Timea, 2022 & Nirmala et al., 2022).

International Journal of Advances in Engineering and Management (IJAEM)
Volume 7, Issue 05 May 2025, pp: 71-83 www.ijaem.net ISSN: 2395-5252

4.2. Change in household income from all economic activities

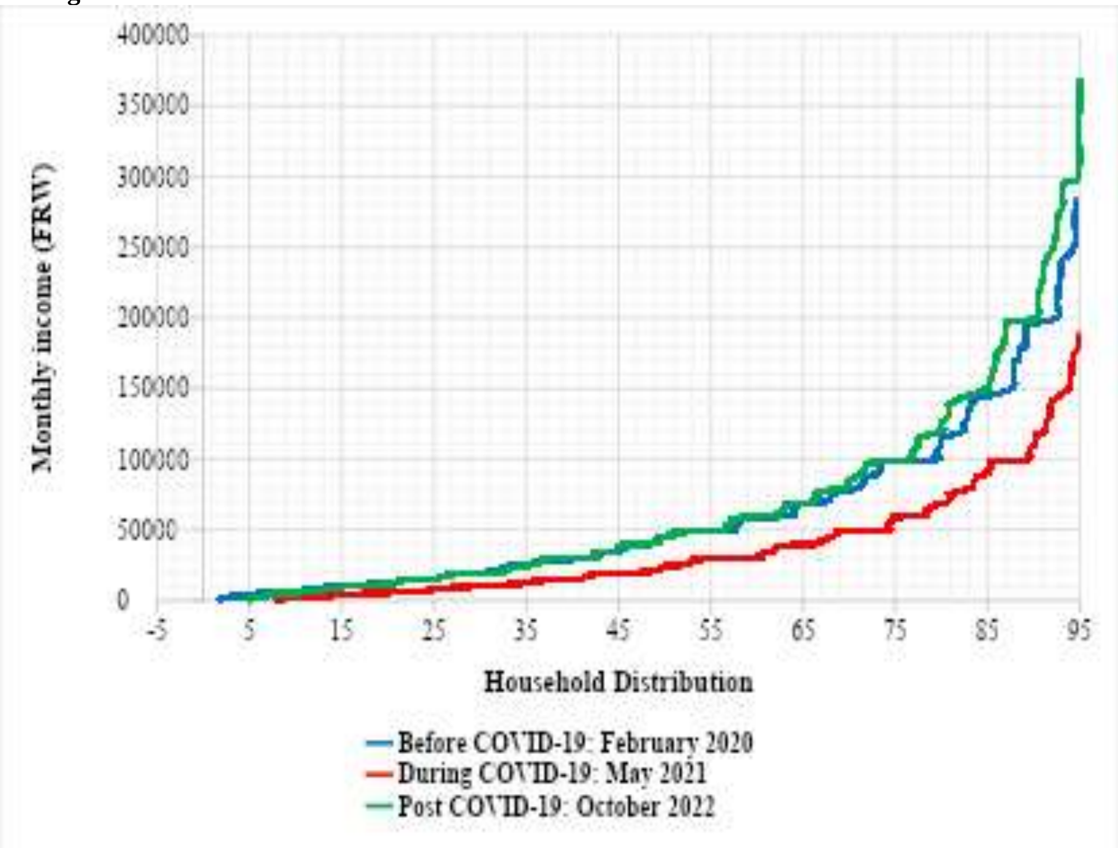

Figure 2: Change in household income from all economic activities

Source: Researchers' plot using primary data, 2024

The finding shows the overall income from all economic activities in households declined between February 2020 and May 2021. Though, the average household income was the lowest during COVID-19 (May 2021). Therefore, there was a remarkable increase in income in October 2022 compared to during COVID-19 (May 2021). However, for approximately 30% of the population, the income is still less than before COVID-19 (February 2020). The economic uncertainty and income reductions caused by the COVID-19 pandemic prompted households to prioritize savings. Research indicates that during this period, many households increased their savings as a precautionary measure against economic uncertainty and future income shocks. This trend is supported by evidence showing fiscal policies and economic conditions greatly influenced saving behavior during the pandemic (Chetty et AL., 2023 & IFPRI, 2021).

International Journal of Advances in Engineering and Management (IJAEM)
Volume 7, Issue 05 May 2025, pp: 71-83 www.ijaem.net ISSN: 2395-5252

4.3. Change in income quintiles/categories

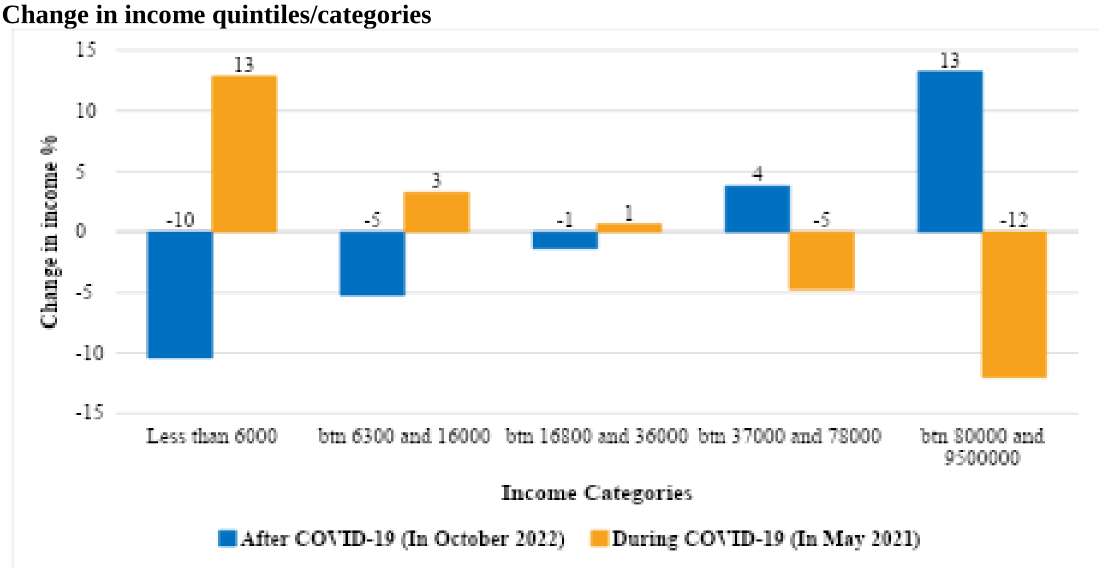

Figure 3: Change in income quintiles/categories

Source: Researchers' plot using primary data, 2024

The survey further inquired about the change in household income categories. During COVID-19 (in May 2021), there was a decrease of about 17% in household income for households that earn 37000 and above. Taking into account the post-COVID-19 period, the income of households earning RWF 37000 and above has increased by about 17% while it decreased by 16% in households whose income is less than RWF 36000. During the COVID-19 pandemic, many households experienced significant income declines, leading to increased saving behavior as precaution against economic uncertainty. Studies have shown that household saving rates surged, particularly in middle and high-income households, as a response to income volatility and job insecurity (Anna, 2023 & Tafa et al., 2022). Additionally, forced savings were notable due to reduced consumption opportunities during lockdowns, further influencing the saving behavior of households (Jakub and Krystian, 2023).

4.4 Change in household expenditures

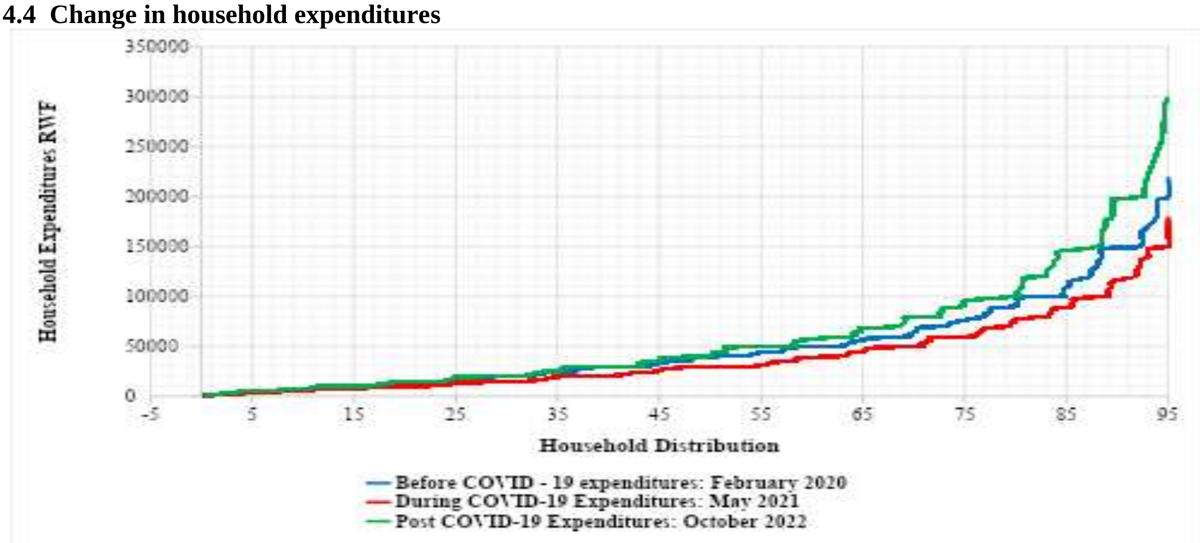

Figure 4: Change in household expenditures

Source: Researchers' plot using primary data, 2024

International Journal of Advances in Engineering and Management (IJAEM)
Volume 7, Issue 05 May 2025, pp: 71-83 www.ijaem.net ISSN: 2395-5252

Our study also assessed household expenditure changes before, during and after COVID-19. The households reported that the household expenditures after COVID-19 (October 2022) increased compared to the period before COVID-19 (February 2020) and during COVID-19 (May 2021). The COVID-19 pandemic significantly altered household expenditure patterns. The result of the expenditures analysis shows that there is an incrementation for many households. The interpretation of the qualitative data analysis informs the reason for changes as follows:

"The increase of household expenditures is not only because of the increase of income but also because prices continued to increase, thereby what should be saved is also lost. In some cases, people take credit because there are things that people are obliged to purchase" (KII village leaders, FGD Men 2022). These findings are very related to the studies which indicate that household expenditures decreased during the initial phase of the pandemic due to reduced consumption opportunities and increased economic uncertainty. However, expenditures began to rise post-pandemic as economic activities resumed and consumer confidence improved (Roll et al., 2022 & Celik et al., 2020 & Gul et al., 2022).

4.5 Change in household food expenditures

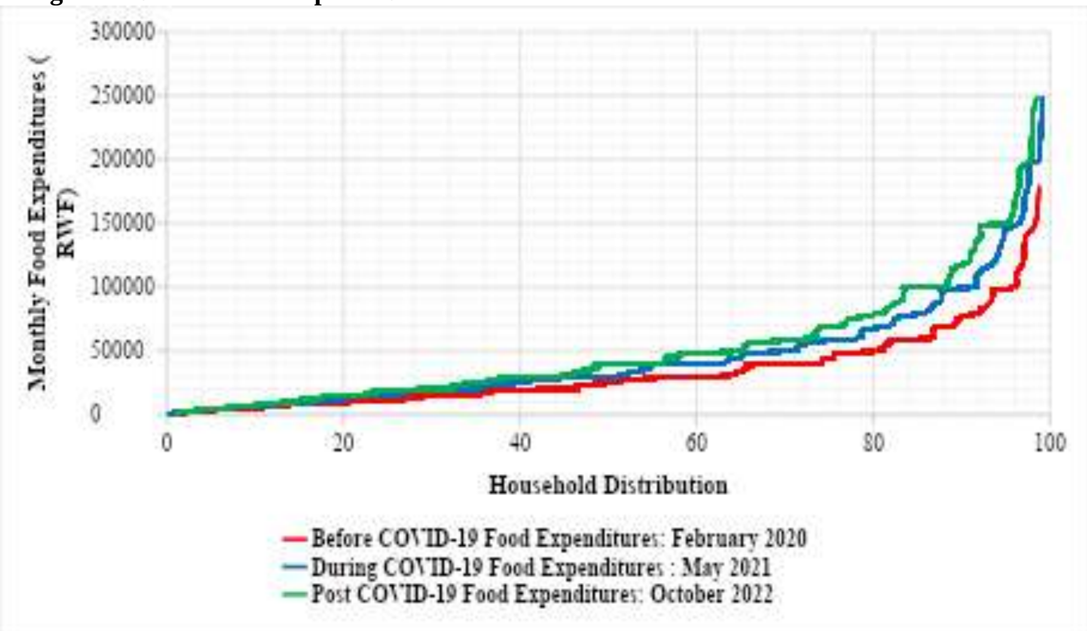

Figure 5: Change in household food expenditures

Source: Researchers' plot using primary data, 2024

Figure 4 illustrates the change in household food expenditure. It was reported that household food expenditure in October 2022 increased more than in the period before COVID-19 (February 2020) and during COVID-19 (May 2021). The influences of the raise in food expenditures as showed in Figure 9 are illustrated during discussions with the population as presented in this next passage:

"The rise of prices of food obliged the raise of food expenditures during COVID-19 however income declined. After COVID-19, prices continued to rise but this time there is some increase in income compared in comparison with during COVID-19" (FGD, Women 2022). During the COVID-19 pandemic, household food expenditures increased due to rising food prices despite declining incomes (Majtaba et al., 2023). Post-pandemic, continued price increased and some income recovery influenced households to maintain higher food expenditures while adapting to saving behaviors, such as buying more food for home consumption to manage costs better (Bina et al., 2023). These changes highlight a shift towards financial prudence amid ongoing economic adjustments (Guo et al., 2022).

International Journal of Advances in Engineering and Management (IJAEM)
Volume 7, Issue 05 May 2025, pp: 71-83 www.ijaem.net ISSN: 2395-5252

4.6 The causes of food insecurity in Households

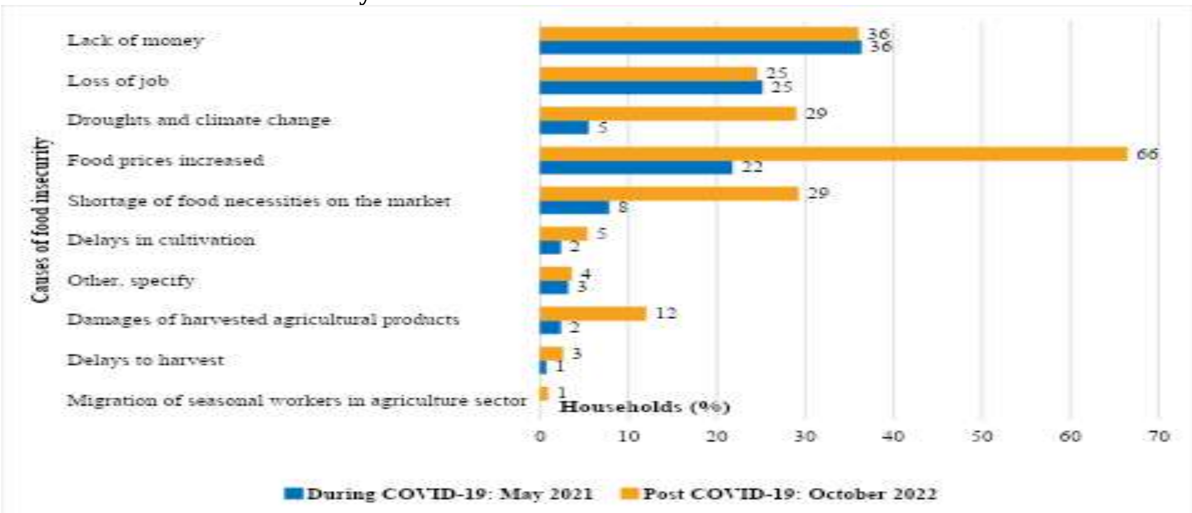

Figure 7: The causes of food insecurity in households

Source: Researchers' plot using primary data, 2024

The study also investigated the main reasons of household food insecurity. Looking at the figure above (Figure 7), we see that a lack of money (36%), loss of job (25%), and food price (22%) were the three most important reasons for food insecurity in households between February 2020 and May 2021. Between May 2021 and October 2022, the main cause of food insecurity was "the food price increase (66%). The second most cause of insecurity was lack of money (36%). In the third place, there are two causes of food insecurity: draughts/climate change and shortage of food necessities on the market (29%).

In general, the higher food price is the main cause of food insecurity followed by lack of money and loss of job. Additional explanations including the reason behind higher food prices are provided during qualitative analysis with FGDs and KIIs as indicated in the following quotation:

"The increase of food prices became higher in post-COVID-19 because of other factors including the crises of the Ukraine war and the decrease of agriculture production associated with climate change. The Lack of money is still a big challenge because many people who lost their job are still unemployed. (KIIs and FGDs 2022)"

Supporting literature indicates that higher food prices, lack of money and job loss are significant causes of food insecurity. The Ukraine war and climate change have exacerbated food prices (Welt Hunger Hilfe, 2022 & World Bank, 2024). Economic conditions, including low wages and unemployment, are critical factors influencing food insecurity (Adam, 2022). The Covid-19 pandemic has also contributed to rising food prices and unemployment, leading to increased food insecurity.

4.7 Change of saving situation

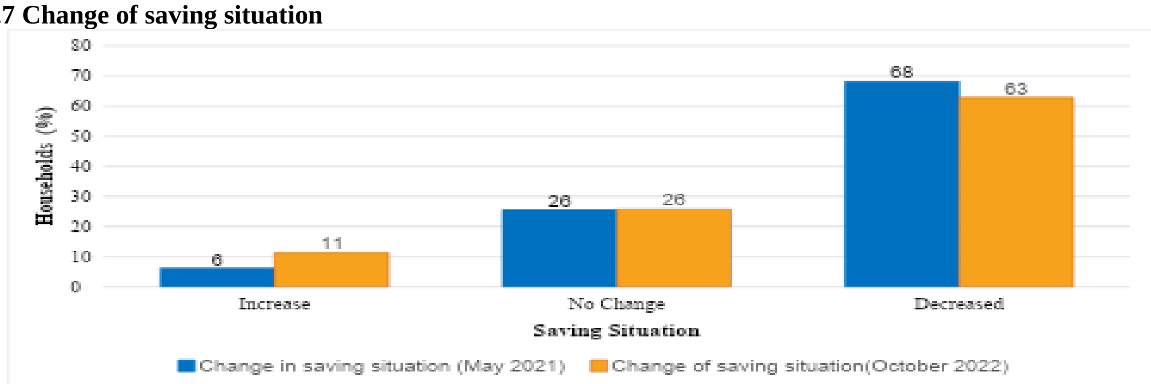

Figure 8: Change of saving situation

International Journal of Advances in Engineering and Management (IJAEM)
Volume 7, Issue 05 May 2025, pp: 71-83 www.ijaem.net ISSN: 2395-5252

Source: Researchers' plot using primary data, 2024

Furthermore, the survey investigated the change in the saving situation. In May 2021, about 68% of households reported that they decreased their savings. From that period up to October 2022, 63% of households decreased their savings. 26% of households have not met any change in saving from the period before COVID-19 (February 2020) till October 2021.

To understand the reason for the numbers shown in Figure 8, qualitative analysis through FGDs with the population has been done. Next is its outcome:

"COVID-19 taught the community the role of saving, which contributed to the increase in saving when COVID-19 started to deplete; at any income, we are trying to spend less and save" (FGDs). The diminution of the value of money on the market is another constraint because the money earned does not help to purchase.

The COVID-19 pandemic significantly impacted household savings behavior, with many reducing their savings due to increased financial pressures and market uncertainties (Xiaotong et al., 2021). Studies indicate that while some households learned the importance of saving and adjusted their behaviors accordingly, others struggled with the diminishing value of money and economic instability (Nirmala, 2022).

4.8 Reasons for not saving

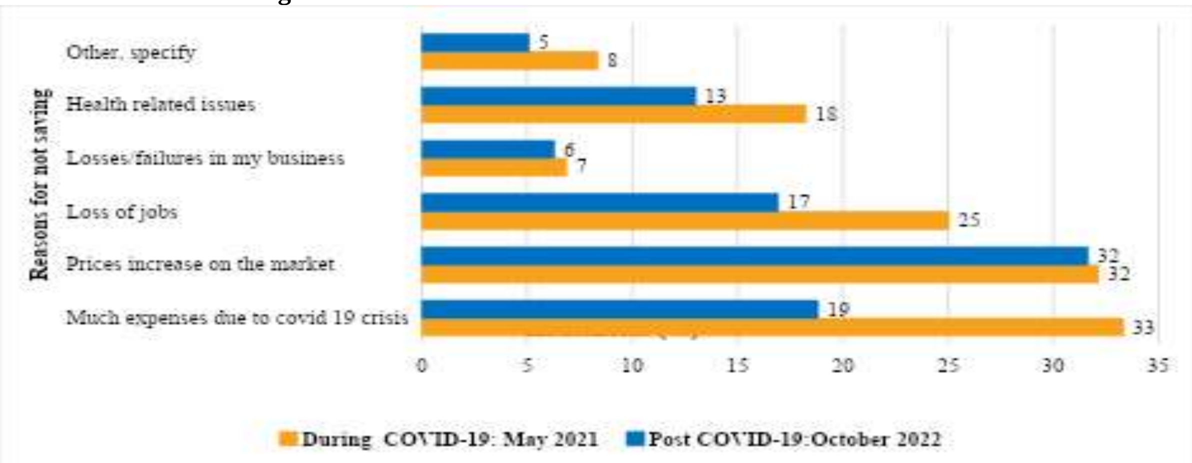

Figure 9: Reasons for not saving

Source: Researchers' plot using primary data, 2024

The survey further inquired about the reasons why some people were not able to save during COVID-19 and after COVID-19 period. Much expenses due to COVID-19 crisis (33%), prices increase on the market (32%), and loss of jobs (25%) are the most three reasons for not saving between February 2020 and May 2021. From May 2021 to October 2022, households reported that prices increased on the market (32%), many expenses due to the COVID-19 crisis (19%), and loss of jobs are the most important reasons for not saving. This finding resonates with the studies that revealed that COVID-19 pandemic significantly altered consumer behavior, with many people facing increased expenses due to the crisis, rising market prices and job losses which were major barriers to saving between February 2020 and May 2021 (Howard, 2022). Additionally, Post-pandemic, from May 2021 to October 2022, these trends continued as households cited similar reasons for not being able to save, including market price increases, ongoing COVID-19 related expenses and job insecurity (Xiong et al., 2021 & ILO, 2020).

V. CONCLUSION:

The COVID-19 pandemic has had a profound impact on household saving behavior in Rwanda. The economic uncertainty and disruptions caused by the pandemic led many households to increase their savings as a precautionary measure. This trend was influenced by various factors, including changes in income, government interventions, and financial literacy.

Household incomes were significantly affected, particularly in the informal sector, leading to altered saving patterns. Government interventions, such as cash transfers and social protection programs, played a crucial role in supporting household finances during the pandemic. These measures helped mitigate the adverse effects of income losses and promoted a culture of saving.

Financial literacy emerged as a key determinant of saving behavior. Efforts to enhance financial education and inclusion, such as the establishment of Savings and Credit Cooperatives (SACCOs) and the National Strategy for Financial Education, have been instrumental in empowering individuals to make informed financial decisions.

Cultural norms and social support systems also influenced household saving behavior, with traditional values of solidarity and community support playing a significant role. However, targeted policy interventions are necessary to address the unique challenges posed by economic crises and ensure sustainable saving practices.

Overall, the findings highlight the importance of a multifaceted approach to fostering a resilient financial ecosystem. By leveraging Rwanda's rich cultural heritage, robust social networks, and ongoing financial literacy initiatives, policymakers can create an environment conducive to sustainable household saving behavior, thereby enhancing economic resilience and financial well-being for all segments of society.

Recommendations for Improving Household Saving Behavior Post-COVID-19 in Rwanda

Educational Initiatives: Implement widespread financial education campaigns to improve financial literacy, particularly focusing on budgeting, saving, and investment strategies. This can help individuals manage their finances better and understand the importance of saving.

Community Workshops: Conduct workshops and seminars in local communities to provide hands-on training on financial management and the benefits of saving. This will empower people with the knowledge and skills needed to make informed financial decisions.

Improved Services: Banks and microfinance institutions should enhance their services to be more customer-friendly and trustworthy. This includes reducing bureaucratic hurdles, improving customer service, and ensuring transparency in their operations.

Mobile Banking Solutions: Promote the use of mobile banking and other digital financial services to make saving more convenient and accessible, especially for those in remote areas. This can bridge the gap for individuals who may not have easy access to physical bank branches.

Tax Incentives: Introduce tax incentives for individuals who maintain regular savings. This could include tax deductions or credits for contributions to savings accounts, encouraging more people to save regularly.

Savings Schemes: Develop and promote government-backed savings schemes that offer attractive interest rates and are secure. This can provide a safe and appealing option for individuals to save their money.

Job Creation Programs: Implement job creation programs to reduce unemployment and increase job security, which in turn can improve people's ability to save. This includes investing in sectors that have the potential to generate significant employment.

Support for Small Businesses: Provide financial support and incentives for small and medium enterprises (SMEs) to help them recover and thrive post-pandemic. Healthy SMEs can offer more stable employment, allowing employees to have a steady income for savings.

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