



CASE OFFERING

Unlocking Rwanda's **entrepreneurial** potential



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Cover: A budding business retrofits motorcycles to be electric. Photo: UNDP Rwanda

Above: Finalists in the Hanga Pitchfest 2021. Photo: Emmanuel Nyandwi/UNDP Rwanda

## Context

Rwanda's private sector is dominated by young, small and micro businesses. As a broader group, Small- Medium- and Micro-Enterprises (SMMEs) are a key driver in the economy. They account for over 90 percent of businesses, contribute 55 percent to GDP, and supply over 60 percent of total employment.

Unfortunately, many of these enterprises either fail or struggle to grow and achieve their potential. This has wide-reaching socio-economic effects including low-quality or underemployment, particularly for key vulnerable populations (i.e., women, youth and persons with disabilities), as well as limiting tax revenues. The sector has also historically faced challenges of unequal representation and involvement by women and persons with disabilities (PWD). Addressing the key barriers that marginalise these sections of society and that limit growth of their businesses will have a profound impact on Rwanda's ability to reach middle-income status by 2035 and to achieve the Sustainable Development Goals (SDGs), in particular the goals on poverty, hunger, decent work and economic growth.

To overcome the barriers faced by youth, women and PWD entrepreneurs, it will be important to: 1) develop the alternative financing market for SMMEs, 2) provide targeted, market-led business development support for high-potential women-, youth- and PWD-led businesses and, 3) implement an incentive framework for businesses to employ PWD.



Addressing the barriers to growth by small- and medium-sized businesses will have a profound impact on Rwanda's ability to reach middle-income status by 2035 and achieve the SDGs.

*Young business leaders in Rwanda need support to achieve their dreams.  
Photo: UNDP Rwanda*

## The private sector and Rwanda's growth agenda

The Government of Rwanda (GoR) is promoting private sector and small businesses growth to drive the country's attainment of middle-income status by 2035 and high-income status by 2050. In Rwanda's 2010 Small, Micro and Medium Enterprises (SMMEs) Development Strategy, the GoR emphasized SMEs as a cornerstone of private-sector development and job creation. In the updated 2019 Entrepreneurship Development Program (EDP), the GoR prioritized facilitating growth and scaling businesses as a next critical step to help Rwanda achieve its economic development goals and tackle poverty, unemployment and inequality. This is embedded in the National Strategy for Transformation-1 (2018-2024), which emphasizes the role of SMEs in creating at least 1.4 million decent jobs by 2024, and in the process reducing unemployment and solving pressing socio-economic inequalities.

The development of Rwanda's private sector will be critically important in achieving the Sustainable Development Goals (SDGs) and the 2030 Agenda. Their ability to provide sustainable jobs with liveable wages will not only help to reduce poverty and hunger and provide decent work but will also help families afford quality education and good health care. Further, within the context of a tight fiscal environment, the private sector will play a pivotal role in the provision of crucial services such as clean energy, education, and healthcare. In addition, by adopting

sustainability strategies and mainstreaming issues of gender and disabilities, the private sector will help drive the objectives set forth in the SDGs and Rwanda's growth agenda.

Together with development partners, the country has made commendable progress in developing a conducive environment for businesses. From a broader macro-economic perspective, Rwanda has implemented business policy reforms that have allowed the country to be one of the top seven African Countries in the Global Competitive Index (World Economic Forum 2019). This Index measures national competitiveness defined as a set of institutions, policies and factors that determine the level of productivity. This includes simplifying the process of starting a business in Rwanda, expanding key infrastructure requirements such as electricity, and easing tax payment processes.

At a micro-level, the GoR has placed significant emphasis on expanding SMMEs' access to markets, finance and skills development. Through the Export Growth Fund, the Development Bank of Rwanda (BRD) provides financing to export-oriented SMMEs in Rwanda's priority sectors for the NST-1, which include agriculture, energy, manufacturing, education and urbanization. Other sources of finance include active development partners and commercial banks (e.g., Bank



Rwanda's food sector offers new opportunities for business growth.  
Photo: UNDP Rwanda



*Members of the Indashyikirwa Cooperative at work.  
Photo: UNDP Rwanda*

of Kigali, I&M Bank) who provide loans and microloans to SMMEs. Umurenge SACCO, a government initiative that aims to expand financial inclusion in the informal sector by encouraging crowd saving and affordable credit loans, is also making inroads on expanding financing to under-served populations.

UNDP has led a few interventions in this regard, including YouthConnekt, a platform for youth, the private sector and government to address challenges young people face in finding jobs and developing entrepreneurial skills. In partnership with the Ministry of Youth and Information and Communications Technology (ICT) of Rwanda, the African Digital Media Academy (ADMA), Tigo Rwanda Ltd. and HeHe Ltd., the program was set up to connect youth to opportunities in skills development, access to finance, business incubators, mentorships, internships and jobs.

**Development partners such as TradeMark East Africa, USAID, and government ministries and parastatals such as the Ministry of Trade and Industry and the National Agriculture Export Development Board help with SME market access and trade.** For example, through the Rwanda Export Development Program (REDP), TradeMark East Africa supports businesses in the agriculture, manufacturing and ICT sectors with market linkages. TradeMark East Africa is also a key contributor in facilitating regional and cross-border trade. Regional trade will take on increasing importance with the realization of the Africa Continental Free Trade Area, which came into effect in 2021.

**Various organisations help SMMEs build their internal capabilities and meet market standards.** These Business Development Services (BDS) providers, provide access to finance, investment readiness support, and capital raising services.

**On the question of inclusivity, GoR, civic organisations and development partners have made strides on gender and disability mainstreaming in the private sector.** For example, the GoR through the Gender Monitoring Office (GMO) in partnership with the Private Sector Federation (PSF), UNDP and UN Women introduced the 'Promoting Gender Accountability in the Private Sector in Rwanda' project. Key interventions of this project include: 1) A Gender Seal Certification Program that certifies companies in compliance with gender equality requirements. Qualifying companies receive either a gold, silver or bronze seal. Other interventions include peer learning, study tours and dialogues for young female aspirant entrepreneurs and capacity-building on gender equality and accountability.

**Lastly, regarding financing, a few Non-Banking Financial Institutions (NFBIs) and other options are emerging.** Recently, The Rwanda Development Board (RDB) and Belgium-based Entrepreneurs for Entrepreneurs (OVO), signed a cooperation agreement to support OVO's Sustainable Technology for Africa (SusTech4Africa) programme in Rwanda, which will provide access to debt and technical expertise for Rwandan start-up businesses. Through this programme, OVO provides experts and access to low-cost loans to early-stage entrepreneurs based on funding from blue-chip Belgian private sector organisations, public institutions and volunteers.

## Key challenges to be addressed

### Growth and economic impact of the sector

Despite the aspirations and achievements of small businesses, there remains significant room to improve their social and economic impact. Business owners, funders and investors alike struggle to become profitable, grow and realise returns. Those businesses that survive generally remain small. A significant proportion of registered businesses are subsistence-oriented microenterprises, as opposed to formal growth-oriented SMMEs. Only 30 percent of Rwandan firms are older than three years, highlighting SMMEs' challenges in sustaining and growing.

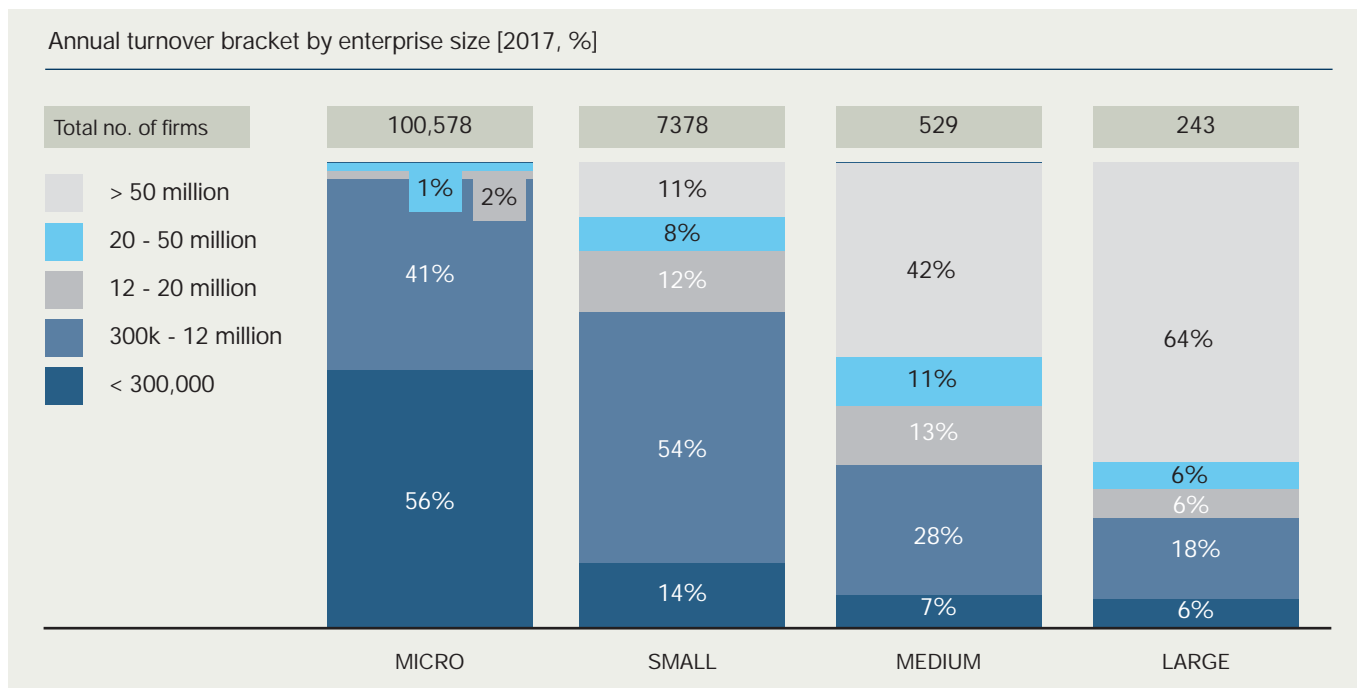
Although SMMEs contribute over 60 percent of jobs in the country, many of these fall short of ambitions for decent jobs and are unable to support the middle-income livelihoods set forth in vision 2050. Over 52 percent of Rwanda's SMMEs have an annual turnover below RWF 300,000 (~US\$300). A further 42 percent of these SMMEs have an annual turnover between RWF 300,000 and RWF 12 million (~\$12,000). This has implications on the quality of jobs and incomes these SMMEs can provide. For those employed, the average monthly earning in Rwanda is ~RWF 63,000 (~\$750 per annum) and is even lower in rural areas (~RWF 35,000 per month ~\$400 per annum). This makes it hard for people to afford quality services such as health, education and electricity.

### Business capacity and development

With often constrained cashflows, SMMEs are unable to invest in and retain adequate technical and human resources. Although there are many technical assistance providers (there are over 55 registered Business Development Services (BDS) providers, and over 10 incubators and specialised business services) offering a wide range of services from business planning to financial management, support is typically short-term in nature and relatively generic across businesses. Furthermore, the largely development-agenda-led, as opposed to private-sector, demand-led orientation of many BDS providers has not been as effective as planned in scaling businesses. In addition, these services are typically short-term, and are unable to substantively improve hard and soft skills of many SMMEs (e.g., financial management, leadership capacity, ability to develop and pitch business cases, etc.).

Although some new service providers, including Nrrsken and BiDS Network, are bringing a more market-based approach to prepare domestic entrepreneurs for investment, greater effort is needed to improve the nature, quality and impact of BDS services.

Figure 1: Annual turnover categorised by enterprise size



Source: Establishment Census 2017, NSIR. Dalberg Analysis 2019)

## Inclusivity

### Women

Women entrepreneurs face several nuanced challenges regarding private-sector participation. Representation in management of businesses and related sector organisations remains a challenge. The Establishment Census 2017 and the Labour Force Survey in 2018 noted only one third of managerial positions in key economic sectors were held by women. In the transportation, storage, mining and quarrying sectors for example, women's participation is less than 10 percent. The PSF has further noted that the number of women in paid work in Rwanda is low compared to men, with women accounting for 62.8 percent of the population outside the labour force. Moreover, because of varying occupations, level of education and experience, women are on average paid less than their male counterparts (an average 13 percent lower).

Further, among 10 professional chambers of commerce, only two women occupy presidency positions and one at the position of first vice president. Within the PSF Secretariat, none of the C-suite positions (CEO, Chief Advocacy Officer, Chief Operations Officer and Directorate positions) are occupied by women.

Rwanda's private sector also largely operates in the informal sector (over 90 percent of SMMEs<sup>1</sup>), with high proportions of vulnerable populations, such as women and youth in rural areas either leading or employed in these businesses. For women and youth involved in these SMMEs, informal employment typically offers minimal job security, sub-standard labour conditions and little on-the-job training. In domestic services, for example, one study by the International Labour Organization found that human rights violations, discrimination and child labour persist in Rwanda's heavily female domestic worker sector.

Regarding opportunities to finance women's enterprises, the PSF found that household dynamics and limited control of assets limit access to collateral and by consequence, to debt financing. Further, skews in financial education and factors such as power dynamics in negotiations are additional barriers to accessing and negotiating the right financing.

### Youth

Since the adoption of the first National Employment Policy in 2007, youth employment has been a priority for the GoR, as confirmed by the adoption in 2015 of the National Youth Policy (NYP). The NYP identifies the need to integrate youth employ-

ment promotion with education and training to create sufficient decent work opportunities for young people. Subsequent policies, including the revised National Employment Policy (2019) built on this strategy.

In addition to challenges in accessing finance and closing skills gaps, one of the key challenges for Rwanda's youth cohort-growing at an estimated 2.6 percent a year-is the limited availability of jobs. Although wage employment is important for youth, the majority are either in unsatisfactory employment or are not employed at all.

ILO studies have also found an important distinction between young men and young women in Not in Education, Employment or Training (NEET) rates by age. Whereas, for young men, rates are lower for youth in their late twenties than in their early twenties, the opposite is true of young women. This reflects a pattern in which NEET is a relatively transitory state for young men, while for young women it easily becomes permanent.

### Persons with disabilities

Persons with disabilities (PWD) still face an idiosyncratic exclusion from various services and their socio-economic status and standards of living remain far below national average. A recent study by UNDP Rwanda indicated that PWD are socio-economically disadvantaged relative to those without disabilities. For example, while 25 percent of persons with disabilities had no access to financial services in 2020<sup>2</sup>, only 7 percent of persons without disabilities were financially excluded. Data collected by the National Institute of Statistics of Rwanda in the 2017 Integrated Household Living Conditions Survey 5 shows that PWD had a labour force participation rate of 56 percent, much lower than the 75 percent rate among persons without disabilities. The unemployment rate among PWD is highest among female youth living with disabilities aged between 16 and 24 and 25 and 34, standing at 22 percent and 21 percent respectively vs 17 percent and 12 percent among male youth within the same age groups.

1 NISR, Labour Force Survey, 2018

2 FinScope, 2020

**The COVID-19 pandemic further exacerbated these challenges leading to business closures and disruption and loss of jobs, especially for vulnerable populations.** In one survey, 55 percent of SMEs reported laying off staff as a response to COVID-19, while more than 50 percent reported revenue reductions of at least 50 percent due to measures taken to prevent and control the pandemic. Informal businesses, mostly owned by women, suffered the most from these disruptions. Almost 60 percent of female-owned micro-businesses reported an annual turnover of less than RWF300,000 (US\$300) compared to 54 percent of male-owned businesses. Limitations to cross-border trade also disproportionately affected women, given that 70 to 80 percent of cross-border traders are women, and 90 percent of these women rely on this trade as their sole source of income. Further, COVID-19 lockdown measures excluded PWD from needed support and left the majority unemployed given the disruptions in the informal sector. Although the GoR has put in place several recovery measures, including the Economic Recovery Fund (ERF) through which businesses can apply for funds to support their recovery from the pandemic, not all SMEs are able to access these funds.

## Financial capacity and access to finance

Due to several factors, SMMEs face tight margins and limited cash flows or funds for growth. These factors include but are not limited to crowding of similar businesses in low-value portions of the same value chains, limited purchasing power in local markets, and constraints with accessing higher-income export markets (less than 1 percent of SMMEs currently export their services or products outside of Rwanda).

The overall financial sector has an estimated US\$6 billion in Assets Under Management (AUM), with commercial banks accounting for over 50 percent of this. Although alternative investment funds, some in the form of venture capital, are worth more than \$900 million, very little of this funding is available to SMMEs. For the funding that is available, the pool of investable businesses (right size, ideal management teams etc.) is limited. Pension funds account for another 15 percent of AUM and are a traditional source of private sector funding across the continent. Although they are an alternative source for well-structured and lower-risk investments, the size and risk profile of many SMEs exclude them this source of capital.

As a result, commercial banks are the main source of SME financing in the country. However, high collateral requirements (some of the highest in sub-Saharan Africa), steep interest rates (average ~17 percent), and limited innovation beyond vanilla short-term loans, keep available funds beyond the remit of many SMMEs. In fact, despite the COVID-19 pandemic, the

banking sector's industry capital adequacy ratio stood at 24.1 percent in September 2020, well above the 15 percent regulatory requirement. While this bodes well for a stable, well-capitalised sector, it is also indicative of conservative lending practices that are a challenge for small and growing businesses. This conservative orientation is driven by the funding structure of banks themselves. With almost four fifths of financing in the form of short-term deposits, banks match this with short-term, conservative lending.

As a result, over 90 percent of investments by small businesses are financed from limited internal funds (as opposed to formal financial Institutions), while less than 10 percent are financed through banks.

While microfinance institutions and Savings and Credit Cooperative Societies bridge an important gap, their almost universal focus on microenterprises in farming and informal sectors and their high interest rates exclude many small and microenterprises, particularly in strategic and growth-oriented sectors such as ICT, tourism and hospitality, high-value agriculture and light manufacturing. Given all these factors, further work is required to expand financing options for SMMEs.



## Interventions

To build on the work being carried out by the GoR, civil society and development partners to grow an inclusive private sector, UNDP Rwanda proposes to 1) develop alternative financing options for SMMEs, 2) provide targeted support to a cohort of

pioneering youth, women and PWD-owned enterprises, scaling them from micro and small to medium and large businesses and, 3) implement an incentive framework for private sector actors to employ PWD.

1

### Innovative alternative financing for SMMEs

Innovative alternative financing options are needed to support and scale growth-oriented SMMEs. This is particularly true for those businesses with moderate- to high-risk profiles, such as high-value exports, tourism, and technology, especially in the current economic environment.

While promising financial alternatives are emerging in Rwanda and regionally, private and external capital remains limited. To address this challenge, UNDP Rwanda will lead in designing, structuring and funding appropriate growth facilities. UNDP will work with partners to:

- Create a **fund-of-funds targeting alternative financial service providers**, including providers of invoice factoring, trade financing, mezzanine debt and other capital facilities
- **Procure blended concessional financing** for Non-Bank Financial Institutions (NBFIs)
- **Pool angel investments through well-structured platforms** for seed and early-stage ventures
- **Tap into the opportunities at the Rwanda stock exchange for listing and capital funding**

UNDP will assist in developing appropriate fund structures, pooling technical and financial resources and, importantly, developing market-driven programmes to get promising domestic ventures 'market ready' to access these funding opportunities. This work would include, but not be limited to:

- Providing technical training in financial management and reporting
- Capacity building for human resource management, sales and marketing
- Funding support for establishment of systems and processes in businesses
- Coaching and mentoring on executive leadership

Key partners such as the Kigali International Financial Centre will be pivotal in attracting fund managers and other actors and overseeing the disbursement and management of funds.



#### Challenge addressed:

limited access to finance for SMMEs

#### Key outcome:

Growth of alternative funding

*Photo: Alice Kayibanda/UNDP Rwanda*

## 2

### Fellowships for innovative women, youth and PWD entrepreneurs

Building sustainable business that are led by, and that employ women, PWD and youth is critical. Emerging business leaders need access to finance and business development support aligned with meeting market needs. UNDP Rwanda will build a bold entrepreneur support program, designed as a two-year fellowship for high-potential, innovative, women, youth and PWD entrepreneurs. Fellows will be guided to address changing demands as their businesses grow.

**This national fellowship will identify top-potential women, youth and PWD entrepreneurs and provide them with 1) safety nets that enable them to absorb risks and 2) technical and hands-on support and mentorship to build growth-oriented businesses that produce goods and services as part of the green economy and create well-paying jobs.**

The programme will not only target out-of-work youth, but also those employed in the corporate or government sectors who have significant entrepreneurial potential. For these aspirants, who already have well-compensated positions, such a transition carries risks, yet their skills could help catalyse new green businesses. The support provided through this fellowship will make such a transition more appealing and feasible for young people daring to take on new challenges.

At a high-level, the fellowship programme will build on existing interventions such as the Gender Seal Programme (which certifies companies for gender equity practices), the multi-partner Disability Inclusion Platform and YouthConnekt. The programme will host an entrepreneurial competition to identify top potential entrepreneurs and high-potential businesses aligned with Rwanda's sustainable growth agenda, and place selected entrepreneurs in the two-year fellowship programme.

Development partners could support this work through helping to drive:

- Access to affordable capital
- A network of mentors and subsidized professional support services
- Performance-linked, guaranteed off-take agreements for products and services by partners (e.g., supply to state Institutions, development organisations, private sector partners)

Bringing this concept to fruition will require:

1. Designing the programme and convening partners
2. Identifying, screening and selecting high-potential, scalable entrepreneurs for the programme
3. Implementing tailored support
4. Monitoring, evaluating and sharing knowledge of key learnings within the broader ecosystem



#### Challenges addressed:

Gender and PWD inequality, duration and misalignment of BDS with market needs, access to finance, short lifespan and suboptimal job creation from SMEs

#### Key outcomes:

Cohort of innovative, green economy-focused pioneering youth and women-owned enterprises that scale to medium- and large-scale businesses and create well-paying jobs

*Photo: Adobestock*

### 3

## Incentive framework for private-sector companies to employ PWD

UNDP will work with the GoR and private businesses and corporations to develop an incentive programme that drives businesses to hire and train PWD.

The set of incentives and policies that will encourage hiring and training of PWD by businesses and corporations.

These incentives could range from potential tax relief to preferential procurement from government departments. Incentives could also be tailored to the types of skills acquired and roles filled (e.g., junior, management, executive positions).

Visually impaired woman with a smart white cane is ready to get to work.

Photo: Alice Kayibanda/UNDP Rwanda



### Challenge addressed:

Under representation of PWD in the private sector workforce

### Key outcome:

Greater representation and employment of PWD in the private sector

## Key implementation partners

This initial list of implementation partners will be updated as conversations continue and the work progresses.

Category	Key implementation partners
Government	<ul style="list-style-type: none"> <li>Ministry of Trade and Industry</li> <li>Rwanda Cooperative Agency</li> <li>Ministry of Local Government</li> </ul>
Private Sector	<ul style="list-style-type: none"> <li>Private Sector Federation</li> <li>Inkomoko Business Partners</li> <li>African Management Institute</li> <li>Rwanda Stock Exchange</li> </ul>
Development Partners	<ul style="list-style-type: none"> <li>TradeMark East Africa</li> <li>Mastercard Foundation</li> <li>Dell Foundation</li> <li>UNECA</li> <li>VISA</li> </ul>

# Theory of Change

The outlined interventions will facilitate the growth and scalability of SMMEs run by youth, women and PWD. The figure below presents the theory of change.

## CHALLENGES

### Innovative Alternative Financing for SMMEs

- Limited access to appropriate finance for SMMEs



### Entrepreneurship Fellowships

- Gender and PWD insecurity
- Duration and misalignment of BDS with market needs
- Access to finance
- Short lifespan and suboptimal job creation from SMEs



### Incentive Framework for Private Sector to employ PWD

- PWD inequality and under representation in the private sector



## ACTIVITIES

- Design programme and convene partners
- Identify, screen and select high-potential, scalable entrepreneurs
- Implement tailored support to enable them to scale
- Monitor, evaluate and share key learnings within the broader ecosystem

- Run competition to select high-potential, scalable, youth and PWD led SMMEs for the programme
- Deep-dive assessment of their bottlenecks
- Support these businesses through subsidized funding, mentorship and business support services
- M&E and sharing of knowledge

- Develop incentive framework in partnership with private sector and GoR
- Lobby private sector partners to take the lead
- Profile and publicise traction being made

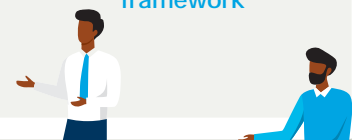
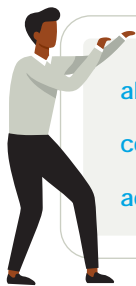


## OUTPUTS

Funding facility for alternative financial service providers, blended concessional financing and structure platforms and access to angel investment

National entrepreneurial development fellowship programme for under represented demographics, in growth-orientated, value and job creating businesses

National incentive and preferential procurement framework



## OUTCOMES

Greater access to finance and ability to scale SMMEs with long-term growth orientation  
 Cohort of innovative pioneering, indigenous medium and large-scale youth, PWD and women-owned and centric businesses  
 Greater PWD representation in the private sector



**Inclusive, accelerated private sector growth in Rwanda**

## Budget

Implementation of this programme is forecast to cost US\$1.6 million.

INTERVENTION	ACTIVITIES	BUDGET (US\$)
Innovative alternative financing (US\$225,000)	• Fund design and structuring	\$20,000
	• Fund raising	\$25,000
	• Market readiness training, including assistance in deal structuring for domestic ventures, financial management and executive leadership mentoring	\$180,000
Women, youth and PWD fellowship programme (\$1,100,000)	• Concessional funding through financial intermediaries	-
	• Performance-linked, guaranteed off-take agreements for products and services by partners (e.g., supply to state Institutions, development organisations, private sector partners)	\$200,000
	• Convene partners (technical advisors, mentors, anchor firms to support entrepreneurs)	\$20,000
	• Competition to identify, screen and select high-potential, scalable entrepreneurs for the fellowship (including support through the process)	\$20,000
	• Implement tailored support for five to ten businesses through a network of mentors and subsidized professional support services	\$800,000
	• Programme management, monitoring, evaluation and knowledge codification for the broader ecosystem	\$60,000
Incentive framework for private sector actors to employ PWD (\$90,000)	• Coordination, meetings, and assistance in drafting incentive structures	\$90,000
	• Lobbying private sector partners to take the lead	
	• Profile and publicise traction made	
Project management and oversight (\$185,000)	• Provide project management support and quality assurance for the project	\$185,000
	• Conduct audits / Spot checks	
	• Provide effective support to project monitoring and evaluation	
<b>TOTAL</b>		<b>\$1,600,000</b>



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