RWANDA BANKING AND INVESTMENT ANALYSIS

Fueling Enterprise Innovation, Growth and Job Creation
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ACRONYMS AND ABBREVIATIONS .............................................. VII

EXECUTIVE SUMMARY ..................................................... 1
   UNDER COMPONENT 3: .................................................. 3

INTRODUCTION ................................................................... 4
   BACKGROUND ON NGURIZA NSHORE AND OBJECTIVES OF THE ANALYSIS ........................................... 5
   METHODOLOGY ................................................................ 6

PUBLIC POLICY FOR FINANCE AND INVESTMENT ............... 7
   VISION 2050: THE NATIONAL STRATEGY FOR TRANSFORMATION AND THE MADE IN RWANDA POLICY .......................................................... 7
   RWANDA DEVELOPMENT BOARD, INVESTMENT LAW, ACCELERATOR AND INNOVATION FUND .......... 8
   THE BUSINESS DEVELOPMENT FUND ................................. 10
   Products ........................................................................... 10
   NATIONAL INDUSTRIAL RESEARCH AND DEVELOPMENT AGENCY (NIRDA) ............................................. 12
   MINECOFIN AND MINICOM ............................................. 13

THE RWANDAN FINANCIAL SECTOR ...................................... 15
   STRUCTURE AND KEY ACTORS ....................................... 15
   National Bank of Rwanda and the Banking Sector ................. 16
   BANK PRODUCTS FOR SMES AND AGRIBUSINESSES .... 18
   LEASING .......................................................................... 25
   MFIS AND SACCOS .......................................................... 25
   NEW NBFIS ...................................................................... 26
   DE-RISKING MECHANISMS ............................................. 26
   LONG TERM SAVINGS AND INVESTMENT ....................... 27
   THE CAPITAL MARKET AUTHORITY (CMA) ......................... 27

THE RWANDAN INVESTMENT ECOSYSTEM ............................ 29
   LOCAL INVESTMENT VEHICLES ....................................... 31
   INTERNATIONAL AND REGIONAL INVESTMENT VEHICLES, VENTURE CAPITAL AND ANGEL INVESTORS .......... 33
   Venture Capital Funds Including Family-Backed Funds ........ 35
   Angel Investors ................................................................ 37
   INTERNATIONAL DEVELOPMENT FINANCE INSTITUTIONS AND BLENDED FINANCE FACILITIES ................. 38
   The Development Credit Authority .................................... 38
   Overseas Private Investment Corporation (OPIC) ................. 38
   African Development Bank ............................................. 39
   African Guarantee Fund (AGF) ......................................... 39
   International Finance Corporation ..................................... 39
   World Bank Rwanda ....................................................... 41
   European Investment Bank (EIB) ....................................... 41
   European Fund for Sustainable Development (EFSD) ......... 41
   Commonwealth Development Corporation (CDC) ............... 41
Kreditanstalt für Wiederauf (kFW) and BRD Export Growth Fund (EGF) 41
Proparco and FMO Credit Facility 42
Green Climate Fund 42

ROLE OF BUSINESS DEVELOPMENT SERVICES AND TRANSACTION ADVISORS IN BUILDING BANKABLE SMES AND FACILITATING INVESTMENT 43
Inkomoko 44
MutiCapital 44
Entreprenarium Foundation 45
Karisimbi Partners. 45
Dalberg 45
Laterite 45
Open Capital Advisers 45
CrossBoundary 46
PUM 46
Private Sector Federation (PSF) 46
Other Investment Advisory Firms in Rwanda 46

POTENTIAL TO TAP INTO PENSION FUND ASSETS FOR MEDIUM-LONG TERM INVESTMENTS 47

CHALLENGES INCLUDING POLICY GAPS AND INVESTMENT ENVIRONMENT PERCEPTIONS 47

DONOR AND DFI ENGAGEMENT IN SME AND AGROBUSINESS FINANCE 49

KEY INITIATIVES SUPPORTING SME AND AGROBUSINESS FINANCE 49
Access to Finance Rwanda 49
TradeMark (TMEA) 50
USAID Private Sector Driven Agricultural Growth (PSDAG) 51
USAID Hinga Weze 51
East Africa Trade and Investment Hub 52
HortInvest 53
DFID Improving Market Systems for Agriculture in Rwanda (IMSAR) 53
Mastercard Foundation Hanga Ahazaza 53

RECOMMENDATIONS FOR NGURIZA NSHORE ENGAGEMENT 55

FITNESS TEST 55

RECOMMENDATIONS COMPONENT 1: EXPANDING THE CAPACITY OF FINANCIAL INSTITUTIONS TO LEND TO SMES 56
 COMPONENT 2: INCREASING PRIVATE AND COMMERCIAL INVESTMENT IN AGROBUSINESS. 57

COMPONENT 3: STRENGTHEN THE ENABLING ENVIRONMENT FOR THE EXPANSION OF SME AGROBUSINESSES AND SUPPORT FIRMS 59

BIBLIOGRAPHY 60
WRITTEN PUBLICATIONS: 60
WEBSITES: 61

ANNEX 1: LIST OF INTERVIEWS AND CONTACTS 64
GOVERNMENT OF RWANDA MINISTRIES AND AGENCIES 64
FINANCIAL INSTITUTIONS AND REPRESENTATIVE BODIES 64
<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRIVATE SECTOR COMPANIES</td>
<td>65</td>
</tr>
<tr>
<td>DEVELOPMENT FINANCE INSTITUTIONS AND DONOR FUNDED PROJECTS</td>
<td>66</td>
</tr>
<tr>
<td>CONSULTANTS AND OTHER KEY INFORMANTS</td>
<td>66</td>
</tr>
<tr>
<td>PRIVATE SECTOR NETWORKS, BUSINESS DEVELOPMENT SERVICE PROVIDERS, CONSULTING FIRMS AND TRANSACTION ADVISERS</td>
<td>66</td>
</tr>
</tbody>
</table>
TABLES AND FIGURES

Tables

Table 1: Financial Sector Outcomes and Policy Actions .......................................................... 13
Table 2: Overview of the Rwandan Financial Sector ........................................................................ 15
Table 3: Select Key Financial Sector Soundness Indicators .............................................................. 17
Table 4: Overview of Banks and their Engagement in SME and Agribusiness Lending .................... 21
Table 5: Categories of Investors and their Proclivities ................................................................... 29

Figures

Figure 1: Key Informant Interviews .............................................................................................. 6
Figure 2: Mapping of Key Investment Actors ................................................................................. 31
# ACRONYMS AND ABBREVIATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AECID</td>
<td>Spanish Agency for International Development Corporation</td>
</tr>
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<td>AFR</td>
<td>Access to Finance Rwanda</td>
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<td>AfDB</td>
<td>African Development Bank</td>
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<td>AGF</td>
<td>African Guarantee Facility</td>
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<td>AIF</td>
<td>Africa Improved Foods</td>
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<td>ANDE</td>
<td>Aspen Network for Development Entrepreneurs</td>
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<td>APTC</td>
<td>Agro-Processing Trust Corporation</td>
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<td>ASAP</td>
<td>Africa Sustainable Agriculture Project</td>
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<tr>
<td>BIA</td>
<td>Banking and investment analysis</td>
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<td>BCG</td>
<td>Boston Consulting Group</td>
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<td>BDF</td>
<td>Business Development Fund</td>
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<td>BDS</td>
<td>business development services</td>
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<td>BK</td>
<td>Bank of Kigali</td>
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<td>BNR</td>
<td>National Bank of Rwanda</td>
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<td>BPI</td>
<td>Business Partners International</td>
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<td>BPO</td>
<td>Business Process Outsourcing</td>
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<td>BRD</td>
<td>Rwandan Development Bank</td>
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<td>CBA</td>
<td>Commercial Bank of Africa</td>
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<td>CDC</td>
<td>Commonwealth Development Corporation</td>
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<td>CGF</td>
<td>Nguriza Nshore’s Catalytic Growth Fund</td>
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<tr>
<td>CMA</td>
<td>Capital Markets Authority</td>
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<td>CPC</td>
<td>community processing centers</td>
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<td>DANIDA</td>
<td>Danish International Cooperation</td>
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<td>DCA</td>
<td>USAID Development Credit Authority</td>
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<td>DFS</td>
<td>digital financial services</td>
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<td>DRC</td>
<td>Democratic Republic of Congo</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>EASRA</td>
<td>East African Securities Regulatory Authorities</td>
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<td>EATIH</td>
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<td>EFSD</td>
<td>European Fund for Sustainable Development</td>
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<td>Export Growth Fund</td>
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<td>European Investment Bank</td>
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<td>EUR</td>
<td>Euro</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FI</td>
<td>financial institution</td>
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<td>FSWG</td>
<td>financial sector working group</td>
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<td>GAFSP</td>
<td>Global Agriculture and Food Security Program managed by the IFC</td>
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<td>GCF</td>
<td>Green Climate Fund</td>
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<tr>
<td>GDP</td>
<td>gross domestic product</td>
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<td>GIIN</td>
<td>Global Impact Investor Network</td>
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<td>GOR</td>
<td>Government of Rwanda</td>
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<td>HACCP</td>
<td>hazard analysis and critical control points</td>
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<td>ICPA</td>
<td>integrated craft production centers</td>
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<td>ICT</td>
<td>information and communication technology</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IFDC</td>
<td>International Fertilizer Development Center</td>
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<td>IMSAR</td>
<td>DFID funded Improving Market Systems for Agriculture in Rwanda Project</td>
</tr>
</tbody>
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IOSCO  International Organization of Securities Commissions
KCB  Kenya Commercial Bank
KFW  German Development Bank (Kreditanstalt für Wiederaufbau)
KOICA  Korean International Cooperation Agency
LTSS  long term savings scheme
MCF  Medical Credit Facility
MEDA  Mennonite Economic Development Associates
MFI  microfinance institution
MICE  meetings, incentives, conferences and exhibitions
MINECOFIN  Ministry of Finance and Economic Planning
MINICOM  Ministry of Trade and Industry
MIR  Made in Rwanda
MNO  mobile network operator
NBFI  non-bank financial institution
NDF  Nordic Development Fund
NIRDA  National Industrial Research and Development Agency
NPL  non-performing loan
NST  National Strategy for Transformation
OCA  Open Capital Advisers
OFSP  orange fleshed sweet potatoes
OPIC  Overseas Private Investment Corporation
RCA  Rwanda Cooperatives Agency
RDB  Rwanda Development Board
RIF  Rwanda Innovation Fund
RIG  Rwanda Investment Group
RNIT  Rwanda National Investment Trust
RSE  Rwanda Stock Exchange
RSSB  Rwandan Social Securities' Board
RWA  risk weighted assets
RWF  Rwandan franc
SACCO  savings and credit cooperative
SCON  Services Company Outgrowers Nyaruguru
SEZ  special economic zone
SGB  small growing business
SIDA  Swedish International Development Cooperation Agency
SIFEM  Swedish Investment Fund for Emerging Markets
SME  small and medium enterprise
SPV  special purpose vehicle
TA  technical assistance
UNDP  United Nations Development Programme
UNFCCC  United Nations Convention on Climate Change
UNIDO  United Nations Industrial Development Organization
USAID  United States Agency for International Development
USD  US dollar
VAT  value added tax
VSLA  village savings and loan association
WASH  water, sanitation and hygiene
WRS  warehouse receipt system
EXECUTIVE SUMMARY

Rwanda is one of the most rapidly transforming countries in Central and East Africa. Since the 1994 genocide that tore the country apart, Rwanda has rapidly reformed itself economically and socially with the aim of becoming a middle income, services-based country like Israel or Singapore. With high annual gross domestic product (GDP) growth rates averaging 7.6 since 2000, aggressive government programs to radically restructure specific sectors like agriculture, export, and financial services, and a transformation of its business enabling environment that included the improvement of dozens of business policy and administrative procedures, allowing Rwanda to leapfrog from 190 to 41 on the World Bank’s Doing Business Survey, Rwanda has become a more desirable place for local, regional and international investors.

As part of its start-up for the USAID-funded Nguriza Nshore project, a five-year project managed by DAI that aims to drive rural economic growth by facilitating access to finance and investment for an emerging and dynamic agribusiness sector, DAI conducted a Banking and Investment Analysis (BIA). The aim of the analysis is to examine the Rwandan banking and investment ecosystem to identify partners and opportunities where the project can focus and leverage its resources including technical assistance, strategic funding for pre-investment support, and de-risking instruments to scale and expand finance for small and medium enterprises (SME) agribusinesses. Specifically, the analysis aims to identify opportunities that enable the project to leverage at least $15 million in new debt financing for SME and agribusinesses (Component 1) and at least $30 million in new investment that will lead to increased profitability, and recruitment of 30,000 new hires by firms receiving investment (Component 1 and 2).

This BIA revealed a nascent but growing finance and investment ecosystem, with:

- A stable, yet conservative banking system that offers relatively costly, highly collateralized loans to largely corporate clients, but is open to and interested in extending loans and other financial products and services to agribusinesses and SMEs;

- Government of Rwanda (GOR) Ministries and Agencies that are motivated to effect change, particularly in line with strategies to create jobs and expand business growth in agriculture and agribusiness; promote exports, including Made in Rwanda products; enable the country and Kigali specifically to become a destination for information and communication technology (ICT), financial, and business process outsourcing services; and draw regional and international visitors to Rwanda for diversified tourism (beyond gorillas) as well as for meetings, incentives, conferences and exhibitions in newly upgraded hotels and convention facilities;

- A nascent investor community made up of donor-financed and social investor raised debt and investment funds and blended finance facilities, local, regional and international consulting, transaction advisory and business support firms including some that come with investment networks (angels, private equity and institutional investors) and operate quasi-commercially often in tandem with donor-supported projects, and politically connected, opaque local investors and investment funds that have been active in some of Rwanda’s most prominent investments in engineering/construction, real estate, food and beverage and aviation companies; and

- Strong donor support, application of and interest in utilizing blended finance – a facility structuring approach in which development funds are leveraged to attract additional non-concessional,
commercial capital. This interest has translated into numerous activities in Rwanda to address capital constraints and to stimulate the market toward more commercial financing of SMEs. This interest includes the development of the Services Company Outgrowers Nyaruguru (SCON), a blended finance facility supported by Unilever in partnership with DFID, the Wood Foundation and the GOR to develop a greenfield tea initiative that would engage thousands of smallholder tea farmers, increasing yields and value for an exported product among others detailed in this report (see case study in this report).

For Nguriza Nshore, there are currently several opportunities to expand finance and investment for agribusinesses and SMEs, while creating jobs and increasing business revenues. These and future opportunities will be aligned with a proposed fitness test that enables the project to evaluate them against targets and expected outcomes. Initially, we recommend the following engagement points:

Under Component 1:

- **Provide technical assistance to partner banks and other non-bank financial institutions** on a demand-driven basis to develop an SME and/or agribusiness strategy; support product development including in areas such as inventory finance/factoring, medium and longer-term loans and leasing; support operationalization of the strategy including staff training and development, and commercial outreach. On the non-bank side, assistance may also include expanding access to finance for on-lending (potentially through an investment) and working with smaller institutions such as savings and credit cooperatives (SACCO) and microfinance institutions (MFI) to reach smaller, women and youth-owned businesses;

- **Assess BDF’s role and impact as a “market maker” for agriculture finance**, specifically agribusinesses. In line with recommendations made by the World Bank, Nguriza Nshore should support a deeper review of the BDF and its role in financing and de-risking lending for agribusiness, looking more closely at its early stage seed capital and growth investments in 26 agribusinesses to evaluate its impact, as well as look at the longer-term implications of BDF provision of subsidized investment capital.

- **Improve the use of new and existing guarantee and de-risking mechanisms** both with the Business Development Fund (BDF) and possibly with the Development Credit Authority (DCA); and

- **Expand leasing finance** by supporting banks and non-banks to develop the product in collaboration with Access to Finance Rwanda.

Under Component 2:

- **Expand the pipeline for investment** with BiD Network and possibly other transaction advisory and investment facilitation firms building off a variety of sources including other USAID funded projects, the BDF and other GOR partnerships including the Rwanda Development Board (RDB);

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RWANDA NGURIZA NSHORE | BANKING AND INVESTMENT ANALYSIS - FINAL

2
• Using the project’s Catalytic Growth Fund to **enhance the investment readiness** of firms for investment by supporting them through advisory services;

• **Expand SME access to the capital markets** by working with the Rwanda Stock Exchange (RSE) to help firms become ready to be listed;

• **Work with the RDB on a case-by-case basis to help export-focused firms obtain various export certification** to enable them to export in line with investor financing requirements; and

• **Opportunistically support private and donor-led blended finance initiatives** that have the potential to grow existing businesses, but more importantly, pull other job-creating SMEs into the chain through new opportunities in processing transport, logistics, storage and other value addition services, as well as in the tourism, meetings, incentives, conferences and exhibitions (MICE), ICT and financial services as aligned with GOR strategies.

**Under Component 3:**

• **Support the adoption of a legal framework for asset-based financing**, working with the BNR, AFR and others to support the adoption of a new legal framework that will address asset-backed financing, factoring, contract and cash flow lending, all of which would have different collateral, classification and provisioning requirements.
INTRODUCTION

Rwanda is one of the most rapidly growing countries in Central and East Africa. Between 2000-2015 its GDP growth averaged 7.6 percent per annum, leading to significant reductions in poverty and inequality\(^2\). Contrasted with pre-genocide 1994 Rwanda, the country has evolved immensely by liberalizing its financial sector, removing credit ceilings and allowing interest rates and exchange rates to be market driven.\(^3\) Rwanda has completely overhauled the regulatory and supervisory system for its financial markets. Whereas pre-1994 government policy showed little engagement with the private sector, even as a source of revenue generation, Rwanda has recently made clear strides to reform and reshape the nation as a place for foreign investment, business and finance. These reforms have been propelled by politically driven messaging and mobilization from the Office of the President, district leaders and local mayors, not only to reshape the country, but also to enable deeper social cohesion among groups who might otherwise have been suspicious of one another, radically remaking Rwanda’s business community and social fabric\(^4\). Rwanda continues to transform itself from a low-income, agriculture-based economy to knowledge-based, services-oriented middle-income country, aiming to become the next Singapore or Israel. In 2018, Rwanda ranked 41 out of 190 in the World Bank’s Doing Business survey, a position well-earned after completing more than 50 related business enabling environment reforms enabling it to climb from the 143rd spot a decade ago. In some sub-areas such as registering property (2nd rank), and getting credit (6th rank)\(^5\), Rwanda leads the world in terms of ease of doing business.

Running a business and working in Rwanda, however, is not without challenges. A small, densely populated, land-locked country with per capita GDP of US $729, a high fertility rate, and with 53 percent of the population under the age of 19\(^6\), Rwanda still has upward challenges to address to create new jobs for its citizens and educate its future workforce. Rwanda is 58\(^{th}\) out of 137 economies in the World Economic Forum’s Global Competitiveness Report 2017, held down by a cluster of efficiency enhancing indicators, such as technological readiness (101\(^{st}\)), higher education and training (113\(^{th}\)), infrastructure (98\(^{th}\)), business process sophistication (101\(^{st}\)) and market size (123\(^{rd}\)). Some local experts have noted frustrations from the private sector who want more leadership in lieu of reacting to what has been a GOR “build it and they will come” strategy, particularly in some key value chains like maize that now have underutilized new infrastructure for milling and storage. A recent World Bank Group investor survey notes that Rwanda’s small market size and landlocked position are viewed as the main deterrents for investment.\(^7\)

Despite these challenges, Nguriza Nshore recognizes opportunities for investment that - given the right incentives, technical assistance, financial instruments and de-risking facilities - could be unlocked to drive economic growth and the creation of jobs in Rwanda. These opportunities exist:

- Leveraging existing donor and government initiatives in agriculture, agribusiness and agro-processing, particularly in the tea, coffee, maize, potatoes, and dairy sectors;

- Through partnerships that build off existing investments in/ from anchor firms like African Improved Foods (AIF), Unilever and the East African Exchange; and


\(^3\) Determinants of Interest Rate Spreads in Rwanda. the National Bank of Rwanda. BNR Economic Review. Volume 12, March 2018.


\(^6\) [https://www.unicef.org/rwanda/overview_9622.html](https://www.unicef.org/rwanda/overview_9622.html)

• From engagement with new investors like the Howard Buffet Foundation and the Africa Sustainable Agriculture Project (ASAP) in new value chains, partnerships with universities like Carnegie Mellon to strengthen the ICT sector, as well as from engagement with traditional donor that are contributing blended finance to build horticulture cold chain and storage facilities, or renewable and off-grid energy infrastructure and distribution systems for rural businesses and households, or financing skills training and business development around tourism, hospitality, and meetings, incentives, conferences and exhibitions that build off of existing investments like the Kigali Convention Center and newly established world class hotels.

**Background on Nguriza Nshore and Objectives of the Analysis**

The USAID funded Nguriza Nshore (“Lend so that I may invest”) is a five-year project managed by DAI that aims to drive rural economic growth by facilitating access to finance for an emerging and dynamic agribusiness sector. By alleviating constraints to investment and increasing access to financing, Nguriza Nshore will help create and grow small to medium agribusinesses, as an entry point for broader growth, to provide productive employment for rural populations and reduce poverty. By working with financial institutions, investors, public and private sector business development service providers, and a variety of GOR ministries and initiatives, Nguriza Nshore will be the catalyst that strengthens and improves existing public-private platforms that support investment from international, local, bank and non-bank sources, creating a better-functioning finance and investment ecosystem.

As part of its inception deliverables, Nguriza Nshore has undertaken a BIA. The objective of the analysis is to examine the Rwandan banking and investment ecosystem to identify partners and opportunities where the project can focus and leverage its resources to scale and expand finance for SME agribusinesses. Led by DAI’s financial services team, with support from Nguriza Nshore subcontractors BiD Network and the Aspen Network for Development Entrepreneurs (ANDE), the analysis provides up to date information on:

• The GOR’s main priorities with respect to financing SME and agribusiness growth;

• Information on the number of financial institutions lending to SMEs and the market leaders, the financial products currently available on the market for SMEs and their utilization rate, and an estimate of the potential market for increased SME lending;

• The current product, service and policy gaps that are constraining SME lending;

• The current state of investment in agribusinesses and SMEs, including current gaps in investment service provision and recommendations for improvements;

• A review of available de-risking instruments, including potential options for using USAID DCA guarantee mechanism in Rwanda; and

• Some analysis of the development of new capital market instruments including corporate bonds and securities.

Recommendations include how Nguriza Nshore can effectively partner with other donors and the GOR, and how the project will support policies that will need to be modified to increase SME lending. The report also includes short and medium-term recommendations for how Nguriza Nshore will catalyze growth in SME lending and investment, identifying institutions and investors who are willing and able to provide additional financing in the agribusiness sector.
Methodology
To undertake the analysis, Nguriza Nshore conducted semi-structured interviews in-person, by phone and email with 75 individuals representing 53 Rwandan government ministries and agencies, banks, non-bank financial institutions (NBFI), business and investment advisory service providers, consultants and donor funded projects. DAI also held two roundtable-style meetings, one with bankers and one with businesses to understand opportunities and constraints to SMEs accessing finance in Rwanda\(^8\). Attendees to the meetings were selected from the two organizations’ memberships, the Rwanda Banker’s Association and AgriProFocus, and are not necessarily expected partners or recipient firms of Nguriza Nshore’s technical assistance. Figure 1 provides a visual overview of those organizations interviewed for this study. Researchers also conducted a secondary literature review using dozens of reports, press articles, and websites, cross referencing data provided in primary interviews. While the analysis is not exhaustive on all topics, it provides a state of the ecosystem and snapshot of the banking and investment market for Rwandan SMEs, particularly agribusiness SMEs, as of July 2018.

FIGURE 1: KEY INFORMANT INTERVIEWS

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\(^8\) Note: the Rwanda Banker’s Association and AgriProFocus, a network of agribusiness SMEs, helped organize a bankers’ workshop and meeting with SMEs, respectively for the BIA team. Attendees to the meeting were drawn from each of the organization’s membership.
PUBLIC POLICY FOR FINANCE AND INVESTMENT

Framed with its long-term Vision 2050, the National Strategy for Transformation (NST), 2015 Investment Law and 2017 Made in Rwanda (MIR) policy, Rwanda is focused on aid effectiveness as well as attracting and mobilizing private investment utilizing a range of mechanisms.

The public policy framework is generally favorable for investment and finance. Many consider Rwanda to have the most efficient and least corrupt government in East Africa, with strong rule of law. Rwanda ranks second in sub-Saharan Africa in the ease of doing business behind Mauritius, according to the 2018 World Bank Doing Business Report. It significantly outranks its peers in similar stages of development and outranks the closest sub-Saharan nation by 16 spots. In fact, Rwanda has implemented the most reforms in the past 15 years, totaling 52, followed by Kenya (32) and Mauritius (31)\(^9\). In 2016, the GOR enacted a modern public-private partnerships law to attract investments in key development projects and has put forward some major public private partnership projects, especially in the energy sector\(^11\). A new $100 million Rwanda/Africa Innovation Fund is designed to invest in and develop world-class innovative tech based businesses in Rwanda and the rest of East African Community (EAC)\(^12\).

At the same time, Rwanda’s competitiveness is hampered by its human capital, infrastructure, market size and sophistication. Moreover, investors and businesses mention that no deal happens without government involvement to ensure projects meet government requirements and align with growth policies. The president has personally encouraged and assisted business people to invest in projects that benefit the country. He has taken them on trips to help them see other ways of doing business and establish potential partnerships for investment.\(^13\) As a small, poor and landlocked country, growth and investment attraction strategies must look outward while leveraging the country’s comparative advantages and public incentives.

Following are highlights of the national policy framework and most relevant public institutions and tools for banking and investment.

**Vision 2050: The National Strategy for Transformation and the Made in Rwanda Policy**

The overarching planning document is Vision 2050 which aims at ensuring high standards of living for all Rwandans by sustaining growth above 10 percent per annum to achieve high income per capita status by 2050. Within this, the NST is built on three pillars: 1) economic transformation, 2) social transformation, and 3) transformational governance. The overarching objective of the economic transformation pillar, the most relevant to this BIA, is to accelerate inclusive economic growth and development founded on the private sector, knowledge and Rwanda’s natural resources. Specific objectives include job creation, urbanization, industrial development, export promotion and expansion of trade-related infrastructure, promotion of a service- and knowledge-based economy, increased agriculture and livestock quality, productivity and production and environmental sustainability. Most relevant perhaps for Rwanda Nguriza Nshore’s objective of off-farm job creation by mobilizing finance and investment is the country’s prioritization of agro-processing to develop an advanced food industry, technology intensive agriculture with a commercial focus, as well as development of finance and business services and other key sectors.

\(^9\) [https://thegiin.org/assets/documents/pub/East%20Africa%20Landscape%20Study/08Rwanda_GIIN_eastafrica_DIGITAL.pdf](https://thegiin.org/assets/documents/pub/East%20Africa%20Landscape%20Study/08Rwanda_GIIN_eastafrica_DIGITAL.pdf)


\(^12\) [https://doi.org/10.1787/888933958174](https://doi.org/10.1787/888933958174).

such as tourism. Investments and other advances achieved in these sectors, building on ease of doing business and improved ICT, will help the country transition from aid dependency. NST II is under preparation and due to come on line July 2018.

The Budget Framework paper for the NST, presented to parliament in May 2018, indicates “key targets and interventions will include growing traditional exports, promoting nontraditional exports, growth of the service sector as well as cross cutting interventions such as promotion of Made in Rwanda, developing of cross border and trade logistics infrastructure and development of industrial parks among others.”

Made in Rwanda began as a campaign to increase the awareness of the benefits of buying Rwandan-made products and has turned into a policy framework for interventions that influence economic competitiveness, according to the 2017 MIR Policy. MIR is “aligned with Rwanda’s aspiration to become upper middle income country by 2035 and higher income by 2050 and recognized its contribution to meeting these targets will ensure Rwanda moves into the lower middle-income category by 2020 given its potential to contribute both to Rwanda’s economic growth in general and the trade balance in particular, as well as to productive employment, The policy prescribes the objectives and strategies for the industrial sector outlined in the vision 2020, NST and long term vision 2050 aiming at putting efforts to expand the economic base in a private sector-led Economy.”

MIR brings together existing government interventions under one policy framework and addresses supply-side bottlenecks via interventions to improve quality and boost cost competitiveness of specific value chains. Interventions include reduction in taxes and tariffs on certain inputs, skills development, SME access to special economic zones (SEZ), local preference in public procurement and boosting access to finance through partnership with commercial banks, among others. The objective is to narrow the trade deficit and increase job creation – notably in labor intensive sectors such as light manufacturing in textile and garment, agro-processing, and furniture – through competitive import substitution and export promotion.

The cabinet decision in late 2017 to establish the Kigali International Financial Centre is another initiative that could influence development of the finance and investment sectors, as the GOR proposes to implement new tax incentives, launch programs for professional skill development and attract financial services and investment firms.

These policies and planning documents provide frameworks for identifying investment opportunities and to support development of the country’s financial and investment sectors.

RDB Registered Investment 2017

The RDB in 2017 registered investments worth $USD 1.675 billion. This is a 44% increase over 2016.

- The three sectors attracting the most investments were construction and real estate, mining and infrastructure with 38%, 16% and 12% respectively.
- The largest individual investments registered last year were Bugesera Airport Company Ltd ($USD 398.68 million), Ignite Power Rwanda Ltd (solar energy – $USD 113.84 million), Gasabo Investment Company ($USD 89.02 million), African Panther Resources Ltd (mining – $USD 54.02 million), and Kigali View Hotel and Apartment Ltd ($USD 53.2 million).

<table>
<thead>
<tr>
<th>RDB Registered Investment 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The RDB in 2017 registered investments worth $USD 1.675 billion. This is a 44% increase over 2016.</td>
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</tr>
</tbody>
</table>

Rwanda Development Board, Investment Law, Accelerator and Innovation Fund

One of the key institutions for investment promotion in Rwanda, as well as implementation of several NST and MIR interventions, is the RDB. In a bid to promote and facilitate investment, the RDB established a one stop shop to provide information and services to guide investors through the key steps of starting a business such as registration, licenses, immigration, land, utilities, environmental clearances and tax and

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mortgage registration services. RDB also offers investor aftercare and a Chief Executive Officer (CEO) forum.

According to the 2015 investment law:

The Board must: 1] facilitate investors in: a) acquiring visas and work permits; b) water and electricity connection; c) obtaining a business license; d) getting environmental impact assessment certificate; e) any other appropriate investment-related support that may be required; 2] provide investment incentives; 3] ensure day-to-day facilitation to an investor in the implementation of his/her project; 4] ensure daily monitoring of registered investor’s operations; 5] keep all records related to investment certificates, work permits, visas and any other documents pertaining to the registered investment enterprise; 6] carry out monitoring of investment projects in order to ensure that investment incentives are directed to the projects which adhere to the requirements and the investor’s submitted business plan; 7] facilitate amicable settlement of disputes that may arise between an investor and one or more public organs; 8] represent the Government in negotiating investment agreements; 9] not to disclose confidential information provided by an investor.

The 2015 investment law also provides ‘special incentives’ including reduced income tax, tax holidays and return of Value Added Tax (VAT) and other benefits for registered investors meeting required conditions in terms of level of investment, sector, etc. while also ensuring that investors can invest in any sector and repatriate profits and capital. Foreign exchange reserves increased in 2017 to their optimal range of over four months of imports by year end, according to the IMF. As such, foreign currency is readily available, but hedging instruments are necessary and expensive, adding to financial costs. A deterioration in the balance of payments, other macroeconomic shifts, as well as significant exits from investors looking to repatriate profits and capital into foreign currency could put pressure on foreign reserves.

Since late 2017, the Boston Consulting Group (BCG) has been supporting the RDB Accelerator to identify strategic opportunities and capabilities to attract foreign direct investment (FDI) and develop competitive sectors. This includes generating a strong pipeline and capacity to manage the FDI process. The four priority subsectors are nutritious foods, affordable luxury sustainable garment manufacturing, business process outsourcing (BPO) and knowledge hub for regional workforce development (ICT and tourism). Support includes guidance on preparation of company and sector profiles, investor identification and contact process, outreach and pitch documents, negotiations and support. The work includes both attracting FDI as well as supporting local champions. Specific projects include maize for nutritious foods, poultry (Uzima Chicken Hatchery for broilers but need to address quality feed and storage), as well as developing the tourism and hospitality sector including MICE, which ties back into the food and beverage sectors.

The RDB also helps local firms meet certification requirements such as hazard analysis and critical control points (HACCP) within the food industry to meet international hotel and export standards. However, there is a need to enable firms, especially SMEs, to meet other certifications such as S-Mark, a voluntary certification that products have been independently tested and certified and thus, able to be sold throughout the European Union (EU) without further safety testing or certification.

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19 The testing and certification regimen for the S Mark is the basis for CE marking and the required documentation.
In addition, the RDB will have responsibility for the technical and operational support of the newly formed **Rwanda Innovation Fund (RIF)** (formerly the Kigali Innovation City/Fund Project). The GOR is making an investment in the RIF through a $30 million loan from the African Development Bank (AfDB) and a $8.6 million technical assistance (TA) pool that will be funded by the GOR, and project management, which will help provide business development support to investee companies of the RIF, and build innovation and entrepreneurial ecosystem capacity in the country and beyond, according to the AfDB project appraisal.20 The RIF will be managed by private fund managers, Angaza Capital. According to the AfDB, the RIF should raise an additional $60 million in private capital as it aims to mobilize at $100 million in direct commitments from the GOR and private investors, while targeting a leverage multiplier effect of up to US $300 million in follow-on investments. The project is expected to support more than 150 companies at various stages and invest in about 20 early growth stage opportunities. It will create more than 2,000 direct jobs and 6,000 indirect jobs over its 10-year life cycle. It will provide capacity-building to 7-10 incubators and accelerators, facilitate 3-5 additional angel networks, and training to about 30,000 entrepreneurs across the region.21

## The Business Development Fund

There are two public institutions that provide wholesale and retail financing for private sector businesses in Rwanda: the Development Bank of Rwanda (BRD) and the BDF. The BRD which provides wholesale and retail loans, typically deals in the medium and larger segment of the market with loans and equity investments (and is described in more detail in the **Financial Sector** section), while the BDF focuses on smaller investments and innovative financing mechanisms including grants. The BDF was established in 2011 as a wholly-owned subsidiary of the BRD, with the objective of assisting SMEs to access finance, particularly those without sufficient collateral to obtain credit from traditional financial institutions at reasonable rates. Other public investment and financing institutions – such as the Rwanda Social Security Board (RSSB), Agaciro Sovereign Wealth Fund and other investment vehicles and holding companies aligned with public institutions – and their relevant instruments are included below in the **Financial Sector** and **Investment** sections.

The BDF has 30 branches, one in every district, and 130 staff that provide in-house services. BDF products include: a guarantee fund, grants, quasi-equity, advisory services, and an integrated craft production centers (ICPC) equipment leasing facility.22

### Products

The BDF provides **partial credit guarantees** for financial institutions (banks, MFIs and SACCOS) to cover between 50 and 75 percent of collateral (for women entrepreneurs up to 75 percent) required by the lending institution for fixed assets and 30-50 percent for working capital. The maximum guaranteed amount is RWF 500 million for agriculture and RWF 300 million for other sectors within a maturity period of 10 years, with limits of RWF 20 million for working capital loans. Interest on the guarantee is around 2 percent. While the guarantee lowers the thresholds for banks to provide loans, it also can have the impact of making them less rigorous on loan monitoring. It may also result in businesses taking on more risk than they really should. BDF is a major provider of partial guarantees in Rwanda with agriculture as the main economic sector that benefits from them.23

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22 [http://www.bdf.rw](http://www.bdf.rw)
The leasing facility is offered to ICPCs that have been established in every district to provide hands-on skills training and an environment for technical start-ups. The maximum loan amount is RWF 100,000,000 with an 11 percent interest rate and maximum period of 10 years. Cooperatives recognized by the Rwanda Cooperative Agency (RCA) and meeting other stipulated requirements are eligible.

Quasi-equity is a self-liquidating investment product that combines debt and equity and is designed for start-up and SME going concerns. Community Processing Centers (CPC) are also beneficiaries of quasi-equity. The CPCs are GOR-owned companies under NIRDA that serve as incubators, information centers and demonstration plants for SMEs providing access to state-of-the-art technology and training as well as an environment for innovative thinking and product development. CPCs were reported operational (in MIR policy) in the leather, dairy and Irish potato sectors, with four more planned to open in the wood, ceramics, honey and banana sectors. The debt portion pays a subsidized interest rate and equity portion charges are based on the annual percentage sales that will be paid every year to BDF to ensure self-liquidation of the equity portion up to a certain agreed period. The loan amount that BDF provides through quasi-equity is between RWF 15-600 million.

The agribusiness financing scheme BDF offers as quasi-equity supports agribusiness projects in combined production and agro-processing where BDF co-invests with the project promoter (owner). The package provided to viable agribusiness projects is made up of the promoter's contribution of at least 10 percent of the amount requested from BDF, a grant of 30 percent and BDF convertible shares of 60 percent. The ceiling of the loan amount under this scheme is RWF 10,000,000 at 12 percent interest. It can finance aquaculture, modernized livestock and farming, horticulture and agro-processing projects. Eligible agribusiness projects should be owned by a Rwandan citizen (cooperative or company) who is a secondary and university graduate with at least two years of professional experience; must demonstrate potential for job creation (e.g., be able to employ a reasonable number of people, especially university graduates); and should be innovative start-ups operating for less than a year and fall under combined production and agribusiness or agro-processing. Nguriza Nshore has had some discussions with the BDF about how to support and formalize this initiative.

As of June 2018, BDF reports 26 early stage seed capital and growth investments totaling approximately RWF 2.8 billion. Of these, more than 60 percent were in agribusiness such as a maize mill, a cheese plant and an Irish potato processing facility. While BDF recognizes that several other funds operate in Rwanda, its management believes it is the only institution doing brownfields. Over the middle and long term these subsidized terms for investment could distort the market, limiting the ability of Rwanda to attract commercial investors. It also potentially limits the willingness of companies to pay for business services.

The BDF also offers grants to promote investments in producing beans, cassava, Irish potatoes, maize, horticulture and dairy products in select districts. Grants may be used for construction of collection centers, dryers, construction of stock/storage facilities, transportation and packaging materials, equipment for post-harvest handling (weighing scales, maize peeling machines, milk cans, moisture testing, machines, etc.)

Finally, the BDF also provides internet services for SMEs at its branches and business development services (BDS) for preparation of business plans that are used for bank loan applications. The International Finance

24 Note: There is a plan to eventually privatize them.
26 Note: DAI did not evaluate any of the 26 companies as part of this BIA.
Corporation (IFC) is considering a model where the centers would be transformed into incubators and for-profit business development centers.

While diverse interviewees contacted for this BIA responded positively regarding the BDF guarantee, interviewees mentioned that it does not cover all sectors (citing a focus on youth and female borrowers). Several also mentioned weaknesses in the business plans that were designed primarily as a requirement for bank loans. Additionally, during informal conversations, a few banks expressed some reservations about working with the BDF because loan approvals took several months and often came after the growing season had started. Additionally, banks cited challenges with the payout of the BDF guarantee. These issues were not part of the BIA but will need to be looked at in greater detail prior to developing a Memorandum of Understanding with BDF.

BDF indicated its needs include: help with investment readiness with firms, including helping firms to prepare to pitch and eventually list, negotiating bulk purchases to reduce the price of leased equipment. This BIA did not assess BDF performance or end user (banks and SMEs) perspectives on the instruments. Such an assessment (also recommended by the World Bank) would be worthwhile to assess BDF’s role as a market maker, and to determine opportunities for improvements and innovation, particularly around its guarantee mechanism. The assessment is an important starting point for Nguriza Nsho before deeper technical assistance can be provided to strengthen BDF’s operations, knowledge and analytical capacity in agribusiness, and develop more sophisticated blended finance arrangements that include private equity or structured debt financing.

**National Industrial Research and Development Agency (NIRDA)**

NIRDA’s mission is to enable a generation of industrial innovators to become competitive through technology monitoring, acquisition, development and transfer, and applied research. NIRDA is undertaking reforms to improve the competitiveness of existing industries and supporting the development of new sub-sectors or value chains where private sector investment will lead to export growth and/or increased local production. This new restructuring includes support from the United Nations Industrial Development Organization (UNIDO) and Korea International Cooperation Agency (KOICA) that will enable NIRDA to introduce firm level innovations through open calls aimed at improving the ability and capacity of Rwandan enterprises and cooperatives to compete in strategic national and international markets, leading to increased profits, exports and the creation of decent and productive employment. Two industries, banana wine processing and garments, are currently prioritized. Firm level support includes:

- Needs identification, procuring and installing equipment;
- Technical advice to improve product quality;
- Technical assistance to improve packaging and other production requirements; and
- Support to improve management systems.

The program does not cover areas like financing for operations, thereby limiting the potential growth of companies supported. Nguriza Nshore will work with NIRDA, mining their list of companies in search of financing, and will look at how we can support the transactions.

**MINECOFIN and MINICOM**
The Ministry of Finance and Economic Planning (MINECOFIN) and the Ministry of Trade and Industry (MINICOM) are key ministries for public policy and programs related to economic development, finance and investment. MINECOFIN chairs the Financial Sector Working Group (FSWG) in which all key public-sector institutions and donors participate. Financial sector priorities for FY 2018/19 are derived from NST-1 and the sector strategic plans where key programs are aligned with the goals and priorities of NST-1. Specifically, the following are identified as broad priority areas:

- Increasing access to finance and private financing
- Mobilizing long-term savings for investment
- Broadening financial inclusion through uptake and usage of financial services and products
- Expanding and improving the use appropriate payment systems and Digital Financial Services (DFS)
- Positioning and maintaining Rwanda as an international financial service center

These priorities support financial sector development and private investment as engines for economic transformation and growth. Beyond building a financial sector that can efficiently and effectively mobilize and intermediate resources to catalyze economic development, the GOR’s long-term objective is to transform the country into a financial service hub. Designing a services center by developing and attracting highly skilled professionals in the financial sector is intended to contribute to Rwanda becoming a competitive, knowledge-based and services led economy. Other financial sector priorities focus on developing long-term savings instruments for investment and finance for agricultural value chains, including modernized agricultural production. Financial sector targets and related policy actions are summarized in Table 1. Policy outcomes relevant to Nguriza Nshore are highlighted in bold. These targets are important public sector priorities, and are being implemented by various GOR ministries, financial regulators and in some instances, with support from Access to Finance Rwanda and other donors. More information about key targets and the stakeholders that support it are provided throughout this document.

**TABLE 1: FINANCIAL SECTOR TARGETS AND POLICY ACTIONS**

<table>
<thead>
<tr>
<th>Sector outcome</th>
<th>Related Policy Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved Private Sector financing</td>
<td>Mobilize resources for implementation of affordable housing financing scheme</td>
</tr>
<tr>
<td></td>
<td>Establish and operationalize Rwanda investment clinic under the Capital Markets Authority (CMA) with support from MINICOM and MINECOFIN through facilitated handholding of SMEs towards raising long-term capital</td>
</tr>
<tr>
<td></td>
<td>Develop agriculture risk sharing and financing facility ecosystem where agriculture value chain is developed and integrated with value chain financing.</td>
</tr>
<tr>
<td></td>
<td>Roll out and implement the national agriculture (crops and livestock) insurance scheme</td>
</tr>
<tr>
<td>Enhanced long-term savings for investment</td>
<td>Expand the pilot and roll out the implementation of long-term saving scheme (LTSS).</td>
</tr>
<tr>
<td></td>
<td>Promoting the culture of saving and investment through conducting public education and awareness programs for prospective investors on savings and investing through capital market, Rwanda National Investment Trust (RNIT) and other long-term saving instruments.</td>
</tr>
</tbody>
</table>

---

<table>
<thead>
<tr>
<th>Increased Financial Inclusion</th>
<th>Identify and train excluded (700,000 excluded) population and link them to financial institutions (FIs) and village savings and loan associations (VSLAs) to increase their savings and lending capacity.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carry out assessment of financial education program and refine as necessary to improve the content and targeting.</td>
</tr>
<tr>
<td>Expanded and improved use of the appropriate payment systems and digital financial services</td>
<td>Facilitate wider access to payment system and DFS through automation of Umurenge SACCOs, District SACCOs and e-banking of cooperative bank</td>
</tr>
<tr>
<td></td>
<td>Amend the payment system regulation to include payment gateways and aggregators.</td>
</tr>
<tr>
<td>Rwanda Established and Maintained as International and Financial Service Center</td>
<td>Develop a competitive tax policy that is expected to provide a competitive fiscal incentive package required by non-resident investors and service providers in the proposed center.</td>
</tr>
<tr>
<td></td>
<td>Perform skills assessment and develop capacity building strategy for the Kigali International Financial Center which will cover all the subsectors of financial sectors.</td>
</tr>
</tbody>
</table>
THE RWANDAN FINANCIAL SECTOR

Rwanda has a growing and stable financial sector supervised by two regulators: the National Bank of Rwanda (BNR) and the Capital Markets Authority. Isolated from global financial markets and with limited cross-border connections, Rwanda did not feel the pinch of weaker economic growth across sub-Saharan Africa in 2016, largely attributed to volatile commodity prices. However, as its financial sector develops, deepens and becomes more interconnected to regional and global markets, Rwanda will increasingly be exposed to outside global financial risks and shocks.29

Structure and Key Actors

Rwanda’s financial sector consists of a diverse and growing array of financial institutions including banks, MFIs, SACCOs, and NBFIs including insurance companies, pension funds, and other new market entrants and unlicensed NBFIs providing new financial products for SMEs, several of which are operating under “no-objection letters” issued by the BNR. In addition to the abovenamed institutions, the CMA also oversees the RSE, commodity markets, collective investment schemes, and warehouse receipts. At current, banks hold approximately 66.6 percent of total financial assets. Information about institutional actors within the Rwandan financial sector is provided in Table 2.

<table>
<thead>
<tr>
<th>Institution</th>
<th>Number</th>
<th>Total Assets (in billions)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td></td>
<td>2,800</td>
<td>As of December 2016, the banking sector manages 194 bank branches, 174 sub-branches, 181 outlets, 400 ATMs, 1885 point of sale devices and 4,411 banking agents.</td>
</tr>
<tr>
<td>Commercial banks*</td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Microfinance banks*</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development Banks*</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cooperative Banks*</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other deposit-taking institutions</td>
<td></td>
<td>258</td>
<td>16 are deposit taking-MFIs</td>
</tr>
<tr>
<td>Microfinance institutions (Limited Companies)*</td>
<td>18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Umurenge SACCOs*</td>
<td>416</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Umurenge SACCOs*</td>
<td>36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NBFIs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public insurers*</td>
<td>2</td>
<td>407</td>
<td></td>
</tr>
<tr>
<td>Private insurers*</td>
<td>14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public pension scheme</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Complementary Occupational Pension Scheme</td>
<td>6</td>
<td>661.3</td>
<td></td>
</tr>
<tr>
<td>Personal pension scheme</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other unlicensed new market entrant NBFIs***</td>
<td>5</td>
<td>No information</td>
<td>These NBFIs include: BeneFactors, Grofin, Kountable, Business Partners International and Inkomoko</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>4,126.3</td>
<td></td>
</tr>
<tr>
<td>Capital Markets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruments</td>
<td>Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equities****</td>
<td>8</td>
<td>2.745 trillion</td>
<td>Includes 5 banks, 2 are cross listed in Nairobi, and 3 companies (media, supermarket, telecom); 2% drop from 2016</td>
</tr>
<tr>
<td>Bonds</td>
<td>16</td>
<td></td>
<td>The coupon rate varies from 11.875 -13.5 percent on issuances varying from 10-15 billion RWF;</td>
</tr>
</tbody>
</table>

Collective Investment Schemes

|   |   | The Iterambere Fund is the only licensed collective investment scheme (see description below). RNIT is the only licensed fund promoter and manager. |

* Data provided by the National Bank of Rwanda website as of June 2018.
** March 2018 data
*** Data collected during BIA. Note: there may be others that operate under letters of no objection.
**** Number of firms listed on the RSE in June 2018

**National Bank of Rwanda and the Banking Sector**

The BNR is responsible for financial sector stability, oversight of banks, other financial institutions and payments and increasing financial inclusion. In recent years, it has made great strides towards modernization with supervised institutions beginning to offer a diversified range of financial products to address the needs of the private sector including payments, savings, credit insurance and retirement products. The banking sector has seen significant growth since 2008, with more than 20 percent growth per annum\(^{10}\) and 25 percent since 2014, showing a strong connection between banking sector development and economic growth in Rwanda.\(^{31}\) As of December 2017, banking sector assets grew 12.9 percent (from RWF 2,380 billion to 2,685 billion) from 2016, growth largely driven by customer deposits\(^{32}\).

Growth has been largely organic, due in part to the divestiture/partial divestiture of the state from key banks like I&M Bank and Bank of Kigali (BK), and in part due to new foreign bank entrants, starting with two Kenyan banks that entered the market between 2008 and 2013, Kenya Commercial Bank (KCB), and Equity Bank. More recently, other bank holding companies and pan-African banks have come into the market including Atlas Mara (Britain) which bought a majority stake of Banque Populaire du Rwanda (BPR) and merged it with the commercial arm of BRD, AB Bank (Germany), Ecobank (Lomé, Togo headquarters), Bank of Africa (Bamako, Mali headquarters), Access Bank (Lagos Nigeria headquarters) and Commercial Bank of Africa (CBA) (Nairobi, Kenya headquarters)\(^{33}\). Indeed pan-African and international investors see great potential in the Rwandan banking sector given a highly supportive regulatory environment for banks and firms doing digital financial services. Even purely Rwandan banks, such as Cogebanque, seem to be ripe for investment as evidenced by Morocco’s Attijariwafa bank announcement in 2017 that it would buy a 75 percent stake in the bank.\(^{34}\) This enthusiasm validates Rwanda’s desire to become an international financial service center.

A review of banking sector stability indicators shows a sound system, although one still grappling with non-performing loans (NPL). As of March 2018 (the date of the last Monetary Policy and Financial Sector Statement) the ratio of NPLs to gross loans was down 7.6 percent from 8.2 percent in June 2017. Information on NPLs of individual banks is found in Table 4. NPLs in manufacturing, trade and the hotel sector increased although NPLs in agriculture dropped from 22.7 percent in December 2016 to 10 percent in December 2017. Despite the risk exposure of the banks in agriculture, agricultural loans only made up 1.6 percent of total outstanding loans. The mortgage sector (with the highest share of loans at 37 percent) has one of the lowest NPL ratios at 4.5 percent. Loan loss provisions relative to NPLs was 44.9 percent. As in previous periods, some of the key structural vulnerabilities of the banks’ balance sheets have loans

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\(^{31}\) Ibid.


\(^{34}\) Holmey, Olivier. “Kigali’s banks seek a wider role in East Africa.” *Euromoney*. October 6, 2017.
and deposit concentrations, a maturity mismatch between deposits and loans and currency imbalances between assets and liabilities. Other key stability indicators can be found in Table 3.

### TABLE 3: SELECT FINANCIAL SECTOR SOUNDNESS INDICATORS

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Adequacy</td>
<td>Regulatory Capital/risk weighted assets (RWA)</td>
<td>15%</td>
<td>20.8</td>
<td>23.3</td>
<td>19.4</td>
<td>20.3*</td>
</tr>
<tr>
<td>Asset Quality</td>
<td>NPLs/gross loans</td>
<td>8.2</td>
<td>7.0</td>
<td>9.5</td>
<td>12.5</td>
<td>6.2</td>
</tr>
<tr>
<td></td>
<td>Earning assets/total assets</td>
<td>81.9</td>
<td>81.9</td>
<td>80.71</td>
<td>52.7</td>
<td>46.3</td>
</tr>
<tr>
<td>Earnings</td>
<td>Return on average assets</td>
<td>1.7</td>
<td>1.7</td>
<td>2.45</td>
<td>2.0</td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td>Return on average equity</td>
<td>9.6</td>
<td>9.2</td>
<td>24.7</td>
<td>8.7</td>
<td>10.2</td>
</tr>
<tr>
<td></td>
<td>Net interest margin</td>
<td>9.9</td>
<td>10.3</td>
<td>7.58*</td>
<td>7.66*</td>
<td>12.3</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Short term gap</td>
<td>6.8</td>
<td>10.4</td>
<td>N/A</td>
<td>N/A</td>
<td>3.7</td>
</tr>
<tr>
<td></td>
<td>Liquid assets/total deposits</td>
<td>44</td>
<td>42.8</td>
<td>18.05</td>
<td>37.9</td>
<td>50.1</td>
</tr>
<tr>
<td></td>
<td>Gross loans/total deposits</td>
<td>108.4</td>
<td>106.2</td>
<td>108.39</td>
<td>84.9</td>
<td>64.2</td>
</tr>
<tr>
<td></td>
<td>Return on Assets</td>
<td>1.7</td>
<td>2.8</td>
<td>2.3</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Return on Equity</td>
<td>9.6</td>
<td>22.3</td>
<td>10.4</td>
<td>9.9</td>
<td></td>
</tr>
</tbody>
</table>


* Economic Research Federal Reserve Bank, St. Louis

As a regulator, the BNR is conservative. Loan collateral requirements are set high at 150 percent of the loan value. Some commercial banks request collateral substantially more than this due in part to discounting of collateral that values real estate and other moveable collateral substantially lower. Interest rate spreads (the difference between the lending rates borrowers pay to the bank and the rate banks pay on deposits) has been 8.7 percent from 2006-2015, the second highest in the EAC after Uganda, and very high compared with well-developed financial systems like South Africa and Singapore whose interest rate spreads were 3.5 and 5.1 percent, respectively. An important part of this issue is Rwanda’s banking system mobilizes less long term savings, which limits its ability to finance the economy and keeping inflation

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low, which has ranged from 3-5 percent per annum. While there is no interest rate cap, banks mentioned pressure to keep interest rates low, noting they get calls from Members of Parliament if their interest rates rise. They also mentioned increasing pressure downward on corporate loans due to increased competition from international banks in this sector as one of the stated drivers of their interest in the SME segment.

**Bank Products for SMEs and Agribusinesses**

As part of the BIA, Nguriza Nshore consultants met with 14 of the 16 licensed commercial banks\(^\text{37}\) to get a deeper understanding of the market and understand the constraints and opportunities for expanding lending to SMEs and agribusinesses. Similarly, Nguriza Nshore worked with AgriProFocus, a network of civil society and private sector agribusinesses, to organize a discussion with 10 Rwandan agribusinesses to gain their perspectives on accessing finance. Although agriculture and agribusiness contributed nearly one third (32.7 percent) to Rwanda’s GDP in 2015, they are the largest contributors to employment in the country (making up approximately 70 percent of total employment), and significant contributors to poverty reduction\(^\text{38}\). SMEs and agribusinesses are among the firms least likely to access bank finance for a long list of reasons based on what banks offer to, and require from, SME as well as the firms’ own capacity limitations including:

- Limited staff/institution experience and knowledge of lending to SMEs and agribusiness, including a limited understanding of specific agricultural commodities and their seasonality by bank loan officers and management;

- High collateral requirements imposed by the regulator and high financial costs including high stated interest rates (16-18 percent on average but up to 24 percent for agriculture), compulsory deposits of up to 30 percent (with no interest paid), additional insurance on pledged assets (up to 5 percent) and a host of fees including one-time management fees (about 0.5-1 percent), one-time file handling fees (0.5-1 percent), late payment fees (2-4 percent per day) and early repayment fees (5-8 percent on the balance paid)\(^\text{39}\). These fees are common across East Africa, although base interest rates are higher in Kenya and Uganda and many southern African countries;

- Limited access to medium and long-term finance that enable longer term loans at a reasonable cost;

- Extensive documentation requirements from SMEs including business plans, two years of audited financial statements (conducted by qualified audit firms usually at a cost of between RWF 800,00-2 million), contracts and receivables (in some instances)\(^\text{40}\), board decisions, business and RDB licenses, and land titles;

- General risk aversion combined with currently high NPLs, particularly in agriculture, real estate and trade;

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37 The National Bank of Rwanda currently lists 17 banks. However, earlier in 2018 Commercial Bank of Africa bought out Crane Bank of Rwanda and took over its branches.


39 Financial costs were discussed at length with a panel of SMEs who have applied for and received financing.

40 Only some banks and MFIs accept contracts for receivables and contracts with offtakers (see Table 4). This is particularly noteworthy in the maize and rice value chains, where banks are using offtaker contracts to minimize risk, according to the World Bank’s agriculture finance diagnostic in 2017. However, SMEs are still required to provide collateral covering at least 100 percent of the loan amount.
• Poor financial and operational systems, business services and technologies on the part of borrowers that if upgraded could improve operations, financial management, marketing and sale of products and enable access to finance;

• Limited management experience and expertise on the part of SMEs;

• Lack of separation of personal and business accounts; and

• Limited financial literacy regarding which products and services best meet their business needs and requirements to access them.

Currently, the most common products banks offer SMEs include:

• Working capital loans for up to 24 months (average is about 12 months) with interest rates between 16-18 percent per annum;

• Asset finance/equipment loans up to 7 years (average is around 5 years) with interest rates between 16-18 percent p.a. Some of these loans allow for grace periods of 6 months up to one year;

• Line of credits up to 24 months that carry higher rates of interest; and

• Micro and retail/consumer loans to individual entrepreneurs and individuals usually up to 12 months41.

Although some banks claim they can turn around loan applications within one month after receiving documents, first time loan approvals often take from between three and six months from the start of the application process for an SME. Repeat loans can require up to two months, which is quite problematic for seasonal businesses.

A few banks are increasingly focused on lending for agriculture or agribusiness, driven by growth in the sector. In 2016, average outstanding loans from banks for agriculture production was RWF 30.1 billion while loans for agribusinesses was 40 billion42. These banks include:

• KCB Rwanda, which is financing the maize, dairy collection centers, rice, coffee, mushroom, equipment and transport sectors. The bank would like to create a more customized SME support center and additional value chain lending;

• I&M Bank, which is financing for rice and agro-processing;

• Bank of Africa, which is currently lending in the tea and coffee sectors, but it is interested in expanding to Irish potatoes and pyrethrum;

• BPR, which is financing agricultural production and providing loans to cooperatives;

• Cogebanque;

• Umgunka Bank, which finances farmer and SACCOs;

• Urwego, which is financing for maize, rice, potatoes and coffee;

• BRD, which provides direct financing for coffee, tea, cassava, rice and poultry; and

• AB Bank Rwanda, which plans to launch a new agri-lending product in 2018.

41 The same collateral requirements apply to all bank loans for SMEs.
Several banks expressed interest to Nguriza Nshore for more tailored TA to enhance their agricultural and SME lending capabilities. In addition, there is an interest in other de-risking tools including credit guarantees desired by the market. While guarantees like those provided by the BDF’s exist, there are challenges in accessing them in a timely manner, particularly for seasonally sensitive agricultural loans. Banks interviewed for the BIA noted that loan approvals can take 3-4 months. There were also complaints that BDS did not always pay out on loans under the guarantee. There is also an opportunity for Nguriza Nshore to build collaboration between BiD Network and the banks to use bank loans to leverage investments for SMEs to optimize capital use. Other lesser available products in the banking market include equipment leasing, project finance for terms greater than five years; inventory, trade or contract financing and factoring. More about individual banks and their interest in and current engagement with SMEs and agribusiness lending can be found in Table 4.
### Table 4: Overview of Banks and Their Engagement in SME and Agribusiness Lending

<table>
<thead>
<tr>
<th>Bank</th>
<th>Products</th>
<th>Assets</th>
<th>NPLs</th>
<th>Clients</th>
<th>Interest Rates for SME/ag lending</th>
<th>Branch Network</th>
<th>Other Notables</th>
<th>Agriculture/Agribusiness or SME Capacity Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>AB Bank Rwanda</td>
<td>Business loans for micro and small enterprises for working capital and fixed assets for up to 24 or 36 months, respectively; agri-lending product to be launched in Q4 2018</td>
<td>RWF 11.79 billion (12/2017)</td>
<td>7.8% (December 2017)</td>
<td>Approximately 24,700 clients</td>
<td>2.3-7.5% per month; disbursement fees of 2.5-3.5%</td>
<td>5 branches</td>
<td>Licensed microfinance bank; Shareholders include Access Holding AG, IFC and KfW; has solar energy partnership with Mobisol and expanding branches to rural areas</td>
<td>Has an SME strategy but to date has been more focused on micro; launching</td>
</tr>
<tr>
<td>Access Bank</td>
<td>Focus on SME and mostly Kigali region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7 branches</td>
<td>In 2015 AfDB provided a line of credit for $6 million on on-lending to SMEs</td>
<td>Market outreach assistance</td>
</tr>
<tr>
<td>Bank of Africa</td>
<td>Corporate and SME banking, agribusiness finance (tea, coffee) but interest in expansion, digital services. SME products include working capital and asset finance loans for terms between 1-36 months and up to 5 years, respectively</td>
<td></td>
<td></td>
<td>Approximately 20,000 clients</td>
<td>18-20% (to be reduced to 16-18% in the future)</td>
<td>15 branches</td>
<td>Part of BCME group which purchased a microfinance bank and transformed into corporate universal bank</td>
<td>Products and services appropriate for SMEs, capacity building and marketing to cover knowledge gaps on value chain finance, de-risking tools</td>
</tr>
<tr>
<td>BK</td>
<td>Corporate, retail, SMEs, microenterprises, cooperatives/associations, mobile lending; SME focused loans carry a term of 0-24 months or up to 10 years for project finance; BK is interested in factoring finance particularly in relation to government receivables; have also explored setting up a leasing subsidiary</td>
<td>RWF 727.2 billion/ US$851.5 million (December 2017); market share estimated at 40%</td>
<td>5.2% (mainly real estate)</td>
<td>Approximately 400,000 clients</td>
<td>18.5% negotiable; 19% for micro loans</td>
<td>80 branches</td>
<td>BK has a renewable energy facility with the World Bank, also partnership with BDF to do quasi-equity on a select basis, partnerships with MTN and Tigo coming soon for mobile related products; Government still owns 50% of BK</td>
<td>Developing new strategy for SMEs with a big emphasis on digital; also interested in staff capacity building</td>
</tr>
<tr>
<td>BRD</td>
<td>Priority sectors include energy, education, housing, agriculture, and exports. Within agriculture, BRD focuses on financing for</td>
<td>RWF 216.12 billion (2017)</td>
<td>16.34% (2017)</td>
<td></td>
<td>Prevailing interest rate is 15%</td>
<td></td>
<td>Government development bank; In 2/2018 EIB announced the provision of a credit line of EUR 14 million and TA for SME lending</td>
<td>Interested in de-risking instruments, capacity building, especially in the agriculture sector and with SMEs; crop</td>
</tr>
</tbody>
</table>

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43 Interest rates are noted per annum unless otherwise noted.


<table>
<thead>
<tr>
<th>Bank</th>
<th>Products</th>
<th>Assets</th>
<th>NPLs</th>
<th>Clients</th>
<th>Interest Rates for SME/ag lending</th>
<th>Branch Network</th>
<th>Other Notables</th>
<th>Agriculture/Agribusiness or SME Capacity Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>BPR</td>
<td>Corporate, SME, agricultural production/cooperatives. For SMEs key products are investment and working capital loans from 2-10 years and up to 24 months, respectively</td>
<td>RWF 273.2 billion (December 2017 audited financials)</td>
<td></td>
<td>17-18%, 18-20% for working capital loans</td>
<td>192 branches (with 90% in rural areas)</td>
<td>Rwanda's oldest bank; holder of DCA guarantee for health and renewable energy but have discussed a DCA for agriculture; Participates in BRD's SME export growth financing facility; interested in de-risking, leasing and client monitoring support</td>
<td>Also manages the Export Growth Facility for SMEs including an investment catalyst fund, a matching grant fund for market entry related costs, and an Export Guarantee Facility. The EGF is provided to 4 banks at 10%; BRD will provide TA to banks to develop appropriate products insurance; within energy BRD will invest US$ 185 million over next 5 years to catalyze US$638 million; note: auditors noted that BRD failed to meet the minimum threshold for Tier I capital (requirement is 10%) and total capital (minimum requirement is 15%) at 8.1% and 12.8%, respectively</td>
<td></td>
</tr>
<tr>
<td>CBA</td>
<td>Mobile banking product MoCash</td>
<td>$ 9.5 million</td>
<td></td>
<td></td>
<td>3 branches</td>
<td>Licensed microfinance bank; in 2018 received approval to purchase Crane Bank, a Ugandan bank and took over its 3 branches; the regulator had taken over Crane Bank in 2016 due to undercapitalization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cogebanque</td>
<td>Agriculture/agribusiness, corporate, SME and retail. SME products are focused on working capital or equipment financing with loan terms ranging from 6-12months and 1-5 years</td>
<td>RWF 201.8 billion (3/2018)</td>
<td>7.92% (March 2018)</td>
<td>15% +/- margin</td>
<td>23 branches</td>
<td>Collateral management for trade finance, training for SMEs/financial literacy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bank</th>
<th>Products</th>
<th>Assets</th>
<th>NPLs</th>
<th>Clients (Year)</th>
<th>Interest Rates for SME/ag lending</th>
<th>Rates for SME/ag lending</th>
<th>Branch Network</th>
<th>Other Notables</th>
<th>Agriculture/Agribusiness or SME Capacity Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ecobank</td>
<td>Corporate, MSMEs with more focus on micro; great interest in electronic banking and mobile apps</td>
<td>RWF 193,527 billion (2016)</td>
<td>37,000 (2015)</td>
<td>19 branches (2016)</td>
<td>Participates in BRD’s SME export growth financing facility</td>
<td>Has an SME strategy, but would like training for business banking staff on SME lending, loan product design work</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Bank</td>
<td>SME business loans with loan terms up to 5 years</td>
<td></td>
<td>17-20% but negotiable</td>
<td>11 branches (2018)</td>
<td>The USAID Hinga Weze is working with Equity on financing for farmers</td>
<td>Tailored products and services for specific business segments, financing for medium term lending</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guaranty Trust Bank</td>
<td>SME business loans up to 48 months</td>
<td>Estimated at RWF 76.24 billion (12/2015)</td>
<td>Interest rate varies</td>
<td>14 branches (2016)</td>
<td>Part of Guaranty Trust Bank Nigeria</td>
<td>SME is the focus area for next 5 years; IFC is supporting strategy development; need assistance to revise some products, marketing and training for staff</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I&amp;M</td>
<td>Corporate, SME; some agriculture (rice, agro-processing) interested in alternative finance like contract/receivables lending with contracts accepted as collateral substitute; working on mobile banking with the introduction of a mobile and blockchain based app; available in francs, US$ and GBP</td>
<td>RWF 286.2 billion (March 2018)</td>
<td>2.4%</td>
<td>17 branches (2018)</td>
<td>Has worked with GIZ on financial literacy for SMEs using CSR funds to cost share; has an EIB credit line of US$ 10 million for SME lending plus TA announced in 2/2018; Participates in BRD’s SME export growth financing facility; Receiving a $10 million line of credit and TA from IFC; will be working with AFR on developing new leasing products for the market</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KCB</td>
<td>SME (up to RWF 1.5 billion for Tier 1 SMEs) and agribusiness finance, specifically maize, rice, coffee, dairy collection centers, mushrooms. Offer loans against invoices, offtake contracts and for equipment or transportation. KCB buys the equipment/vehicle and registers a ‘caveat’ (lien). Will finance up to 70% the value of new equipment/vehicle for five years.</td>
<td>RWF 140 billion (June 2015)</td>
<td><strong>7% (2016)</strong></td>
<td>18 branches, 5 in Kigali, 13 in rural areas (2018)</td>
<td>KCB has extensive experience in agricultural value chain and SME finance in Kenya. In Uganda it works with IFC, World Food Program and Mastercard on SME and agricultural lending programs; Has worked with USAID Hinga Weze to develop an inventory discount product for farmers who sell to wholesalers and others buyers; Similarly, KCB works has worked with AFR on lending for</td>
<td>Strategy development especially related to financing specific value chains and more specialized SME support centers; KCB Kenya’s agricultural finance team has extensively supported the Rwanda bank; KCB would like to do more value chain finance</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>


<table>
<thead>
<tr>
<th>Bank</th>
<th>Products</th>
<th>Assets</th>
<th>NPLs</th>
<th>Clients</th>
<th>Interest rates for SME/ag lending</th>
<th>Rates for Uncollateralized Microenterprises</th>
<th>Branch Network</th>
<th>Other Notables</th>
<th>Agriculture/Agribusiness or SME Capacity Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unguka Bank</td>
<td>Loan products include salary advance, vehicle, education, mortgage, trade, transport and agribusiness. Also, farmer finance, microfinance loans and SACCO loans</td>
<td>RWF 26.398 billion (6/2017)</td>
<td>6.5% (June 2017 financial statements)</td>
<td>More than 40,000 back in 2013</td>
<td>Interest rates are negotiable</td>
<td>18-21% for SMEs, 24% for post-harvest loans, 2.5% per week, bi-weekly or monthly for uncollateralized microenterprises</td>
<td>18 branches and 2 outlets</td>
<td>Started as a microfinance institution; now a licensed microfinance bank</td>
<td>the dairy sector, expanding its MobiGrow product to Rwanda for mobile loan disbursements and repayments and on a voucher platform aimed to facilitate working capital by bringing transparency to contract farming arrangements</td>
</tr>
<tr>
<td>Urwego Opportunity Bank</td>
<td>Community banking, shelter finance, business, consumer, agricultural and education loans; asset finance; terms vary depending on the type of finance and repayment schedule. In some instances, offers loans against offtaker contracts.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>18 branches (2018)</td>
<td>Licensed microfinance bank; Participates in BRD’s SME export growth financing facility; interest areas: de-risking, value chain finance, After come trial and error developed a value chain finance strategy that currently covers coffee, Irish potatoes, maize, rice; seek capacity building for staff and new emphasis on non-financial services/financial literacy</td>
<td></td>
</tr>
<tr>
<td>Zigama Credit and Savings Society</td>
<td>Heavy emphasis on voluntary and compulsory savings schemes</td>
<td></td>
<td>80,000$^50$</td>
<td>11 branches (2011)</td>
<td></td>
<td></td>
<td>The only licensed cooperative bank; according to Wikipedia, the bank is majority owned and administered by members of the Rwanda Defense Forces</td>
<td>unknown</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Financial institution websites, interviews and feedback from bankers meeting, various press articles and GIZ study on financial products for entrepreneurs and start-ups

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Leasing
As part of a worldwide effort to expand leasing finance as an alternative financial product for SMEs, the IFC began to develop the sector in Rwanda in 2005-2006. This included developing a leasing law and working with several financial institutions to develop leasing as a product. In 2014 AFR conducted a leasing sector assessment and found five banks and two MFIs offering leasing products. However, in the years since, these institutions have almost completely stopped offering leasing as a product. The biggest tax and regulatory issues for financial institutions include double VAT, challenges and delays in recovering assets, issues with accounting treatment and depreciation. In addition, most financial institutions lacked a leasing strategy, never developed policies and procedures nor trained up staff.

In 2015, with support from the IFC, many of the legal and tax issues were addressed in a new leasing law (and accompanying regulations), and new VAT law no. 40/2016. However, financial institutions have not enthusiastically embraced leasing finance and penetration remains low. At the Nguriza Nshore-organized bankers’ meeting, banks noted their continued reticence about leasing given past problems. In late June 2018 AFR’s investment committee approved a new initiative to support two financial institutions, the BDF and I&M Bank, to revive leasing activities helping them to establish leasing units with a clear business strategy, policies and procedures, leasing products and staff development. However, the committee noted that it would like AFR to coordinate with Nguriza Nshore on the roll out to financial institutions.

MFIs and SACCOs
Microfinance began in Rwanda around 1975 with the establishment of the first Banque Populaire in Nkamba and grew rapidly after the 1994 genocide with the support of international non-governmental organizations (NGO) and humanitarian aid organizations. Several of the NGOs evolved into MFIs with varying degrees of capacity and professionalism. Some of these institutions have transformed into microfinance banks while some remain as non-deposit-taking MFIs. Today the BNR oversees 18 MFIs set up as limited companies. By contrast the development of SACCOs has been largely driven by the GOR to drive deeper financial inclusion. Umurenge SACCOs have been established in each of Rwanda’s 416 counties or sectors (umurenge). A 2014 study by the Alliance for Financial Inclusion noted that 90 percent of Rwandans live within 5 kilometers of a SACCO.

SACCOs and MFIs play an important role in providing services to the informal sector, subsistence farmer households and, to a lesser extent, commercial farmers. A 2016 FinScope analysis of agricultural finance found that SACCOs play an important role in financial intermediation for commercial farmers and farm workers. For example, 41 percent of commercial farmers use SACCOs for savings, although only 14.6 percent can access loans from SACCOs. Similarly, 34 percent of farm workers are members of Umurenge SACCOs, but only 9.9 percent can access loans.

Also, as described above in the Public Policy for Finance and Investment Section, the BDF provides SACCOs and MFIs with access to a guarantee that covers 50-75 percent of the collateral required to reduce risk and expand lending. However, despite the guarantee and additional capacity building from BDF, the SACCOs remain conservative, risk averse and reluctant to trust the BDF guarantee, instead preferring hard assets as collateral. Also, over the past several years AFR has undertaken an initiative with the

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52 The Nguriza Nshore and Rwanda Bankers Association organized bankers meeting took place on 19 June 2018 at the Hotel des Mille Collines in Kigali.
Rwanda Cooperative Agency to upgrade the institutions, first digitizing their paper-based systems to increase their ability to operate efficiently and effectively, expand their member base, and ultimately, drive consolidation into a cooperative bank. In a second phase of the project and through a shared revenue arrangement, the Association of Microfinance Institutions of Rwanda (AMIR) is with its member institutions including non-Umurenge SACCOs and MFIs to implement a shared core banking system.\(^5\)

Despite the large number of institutions, licensed SACCOs and MFIs represent a small portion of financial sector assets, only 6.2 percent. Average loan sizes among MFIs and SACCOs vary from around RWF 10,000-500,000 ($12-$572) for the small SACCOs, to RWF 10,000 to 10 million ($12-$12,000) for the medium sized MFIs and larger SACCOs to RWF 70,000-150 million ($80-$171,000) for the big MFIs and microfinance banks. Except for the larger regulated microfinance banks, the BIA did not focus on MFIs or SACCOs given their small loan size and inability to serve the SME market.

**New NBFIs**

In part due to risk aversion by the banks and the BNR and in part driven by the development of new technologies that enable rapid decision-making, several new NBFI entrants into the market aim at financing SMEs, agribusinesses and export focused businesses. These NBFI\$s include BeneFactors and Kountable, two NBFI\$s currently operating under the contract law that provide contract, purchase order, distributor, trade and factoring financing, leveraging the creditworthiness of their buyers to access finance; as well as Grofin, Inkomoko, Oiko Credit and Business Partners International (BPI) that provide debt, quasi-equity and royalty based financing to SME\$s and are not supervised by the BNR. Given these new entrants, the BNR - with support from Access to Finance Rwanda - recently conducted a study on “shadow banking” to understand if and how it should regulate these new entities, particularly those that engage in non-intermediated financing activities. BNR is especially interested in getting to know this sector better in the event that they begin borrowing from banks, incur foreign exchange rate risks, and to understand how these entities can be regulated or supervised to avoid potential money laundering, reputational risk or moral hazard that may come from poor client protection. The study is also helping to inform a draft legal framework covering asset-backed financing and includes factoring, contract and cash flow lending, all of which would have different collateral, classification and provisioning requirements. The aim of the draft law is to avoid over-regulation while protecting consumers and avoiding systemic risks. NBFI\$s consulted on the draft suggested that the new law may be helpful in raising their own profiles and credibility with investors who have indicated some concern about their operation under letters of no objection with the central bank. Once passed, this new law could unlock improved debt financing for SME\$s and thus, new opportunities for growth.

**De-Risking Mechanisms**

While relatively underdeveloped in terms of asset backed and cash flow based lending and collateral requirements, the banking system does benefit from other modern technology such as the mandatory use of a credit reference system managed by Transunion. Started seven years ago, the credit bureau offers positive and negative information on borrowers, although credit scores are not yet available. Also, there is less information about microfinance clients. Still, overall NPLs are approximately 7 percent although the supervisor suggests this is not of primary concern, in part as it is covered by mandatory collateral of 150 percent. Rwanda also has a strong creditor and insolvency framework and a notice-based collateral registry\(^6\) which supports its credit infrastructure.

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\(^5\) Access to Finance Rwanda Annual Report Summary 2017. AFR.

The BNR is also creating a detailed data warehouse which will require banks to digitalize and share much more data on clients and loans, and several banks interviewed are stepping up their digital and mobile banking platforms.

However, both the supervisor and the commercial banks interviewed indicated they have a problem financing agriculture due to systemic risks such as weather and lack of both collateral and knowledge of the sector. As such, the Central Bank is recommending the Ministry of Finance look to develop de-risking instruments including guarantees and a national agricultural insurance scheme that would enable increased agricultural lending. Access to Finance Rwanda (AFR), a multi-donor trust fund focused on financial inclusion and financial sector development (see section below on Donor and DFI Engagement in SME and Agribusiness Finance) has responded by putting out for tender a new project that would begin the design work for a de-risking facility (described below in the Investment Section). Other de-risking facilities such as USAID DCA, BDF’s guarantee and OikoCredit are also described in this document.

**Long Term Savings and Investment**

The BNR is also the supervisor responsible for pensions and insurance, two types of institutions most relevant for increasing long term savings, another public policy priority in Rwanda. As of 2015 the private pension law was enacted, on top of the existing RSSB which is the public pension scheme and by far largest pension fund in the country. Additionally, in July 2016, the GOR established the mutual savings scheme, the Iterambere Fund, to facilitate long term savings. The Iterambere Fund pools funds from various smaller investors who share similar investment objectives. The funds are managed by the RNIT who invests in a portfolio of securities such as bonds, money market instruments and other authorized securities.

**The Capital Market Authority (CMA)**

The CMA regulates, licenses and supervises collective investment schemes, commodities markets, warehouse receipts (WRS) and the RSE. Its key functions include:

- Investor protection;
- Building and maintaining a conducive regulatory framework in line with international standards and moving toward full membership in the international organization of securities commissions (IOSCO);
- Building public market awareness of the capital markets through public education, media campaigns and working with universities to educate young adults on the capital markets; and
- Assisting with product development, particularly, specialized products for SMEs and identifying potential issuers and investors. To this end, CMA has planned an investment clinic to support SMEs.

Over the past five years, Rwanda’s capital markets have become more developed and Rwandan capital market firms are providing a wider range of products and services as regulated by the CMA established in 2008. There are currently six listings on the RSE – four banks (BK and I&M that were listed for the privatization of Rwandan state-owned banks, as well as Equity and KCB), which are cross-listed Kenyan banks, as well as Bralirwa, the Rwandan brewery, and Chrystal Telecom (now under the MTN group). It currently manages the sale of more than 16 bonds, the majority issued by the GOR and one by the IFC.
The number of shares traded and turnover increased by 41 and 16 percent, respectively and it closed the year (June 2017) with a share index at 119.31\textsuperscript{58}. No commercial paper has been floated on the exchange.

CMA, through an initiative spearheaded by the East African Securities Regulatory Authorities (EASRA), has agreed to support the establishment of a Capital Markets Advisory Centre to enhance access to capital for SMEs\textsuperscript{59}. CMA is also very interested in building the market for venture capital, promoting new fiscal incentives for registering with it, including a five-year income tax exemption. Currently there are no venture capital firms listed with CMA, but it has an investment bank is in the pipeline, which they would regulate.

In 2016, CMA, with support from Financial Sector Deepening Africa, conducted a study of crowdfunding in East Africa, looking specifically at donation-based, reward-based, equity-based and loan-based models. The study found that US $3.5 million was raised in Rwanda using crowdfunding mechanisms in 2015 and an additional US $2 million in the first quarter of 2016. Three quarters of these funds were raised from non-financial returns based lending and a quarter through donation-based mechanisms; other models have not yet emerged in Rwanda. As a result of the study, CMA and the BNR determined that crowdfunding is an area for future regulation\textsuperscript{60}. CMA noted in a 2018 meeting that this policy was being drafted under their leadership.


THE RWANDAN INVESTMENT ECOSYSTEM

Rwanda’s investment climate and ecosystem offers a mixed opportunity for investors. The Global Impact Investing Network’s (GIIN) 2015 impact investing landscape in East Africa found the Rwanda support ecosystem includes many players common to the region. As in other countries in East Africa, support is skewed toward seed-stage ventures, leaving a gap for intermediaries and service providers operating with business more appropriate for non-development finance institution (DFI) impact investors. A small number of consultants have local offices in Kigali and specialize in serving the Rwandan market. A greater number operate in Rwanda but are based abroad, predominantly in Nairobi. To date, few investor networks and business plan competitions have been available in Kigali, reflecting Rwanda’s emerging entrepreneurship scene. Some investors based in Kigali address the lack of support for early-stage businesses by providing their own incubators, which then serve as the primary source of pipeline for subsequent investments.  

At the same time, it is important to recognize that development finance institutions, donor projects and public-sector support institutions and programs have increased focus on finance and investment, notably for agribusiness and tourism, as detailed in the Public Policy, Donors and DFIs sections of this BIA analysis. Table 5 below highlights some of the idiosyncrasies of these investors, their preferences with respect to return versus impact, risk appetite and investment outlook. Currently, individual investors offer the greatest promise for financing Rwandan SMEs with the bulk of investments expected in the $150,000-200,000 range. For larger sized investments, institutional investors offer some promise. In high social impact sectors, such as agriculture, health, WASH and energy, not-for-profit foundations have an important role to play in providing blended finance. Specifically, foundations can provide grants for capability building, as well as equity through affiliated investment vehicles, enabling SMEs to generate impact and return simultaneously. Currently, regional lenders and NBFIs are the most challenging to tap for co-financing, given high collateral requirements and interest rates/financial costs to SMEs.

TABLE 5: CATEGORIES OF INVESTORS AND THEIR INVESTMENT PROFILES

<table>
<thead>
<tr>
<th>Investor Category</th>
<th>Return vs Impact</th>
<th>Risk Appetite</th>
<th>Investment Return Outlook</th>
<th>Investment Structure Preference</th>
<th>Time Horizon &amp; Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal Investors (High net worth private individuals)</td>
<td>Impact: ++</td>
<td>Medium/High</td>
<td>Lower</td>
<td>Equity mostly or mezzanine capital $5,000-$500,000 per deal (may syndicate multiple investors with average of $40,000 per investor)</td>
<td>Patient capital &amp; USD/ EUR mostly</td>
</tr>
<tr>
<td>Regional Institutional Funds</td>
<td>Impact: +/-</td>
<td>Medium</td>
<td>Comparable</td>
<td>Comfortable with any investment instrument Venture $100,000-$5 million, PE &gt; $5 million</td>
<td>Patient capital &amp; USD/ EUR preferred</td>
</tr>
<tr>
<td>International Institutional Funds</td>
<td>Impact: +</td>
<td>Low/medium</td>
<td>Comparable</td>
<td>Comfortable with any investment instrument Venture $100,000-$5 million, PE &gt; $5 million</td>
<td>Patient capital &amp; USD/ EUR only</td>
</tr>
<tr>
<td>Regional Capital Lenders (Banks and NBFIs)</td>
<td>Impact: +/-</td>
<td>Low</td>
<td>Equal</td>
<td>Mostly Straight Debt</td>
<td>Less patient &amp; mostly local currency</td>
</tr>
</tbody>
</table>

61 https://thegiin.org/assets/documents/pub/East%20Africa%20Landscape%20Study/08Rwanda_GIIN_eastafrica_DIGITAL.pdf

RWANDA NGURIZA NSHORE | BANKING AND INVESTMENT ANALYSIS - FINAL
<table>
<thead>
<tr>
<th>Not-for-Profit Foundations</th>
<th>Impact: ++</th>
<th>High</th>
<th>Lower</th>
<th>Grants / Straight Debt</th>
<th>No return sought mostly, USD / EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance: +</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: BiD Network

Beyond Rwanda’s relatively lower attractiveness both from a population size and growth perspective, its landlocked nature and the high cost of transport and inputs, investment is further inhibited due to the limited number of high-quality, larger investment opportunities, as well as high potential small and growing business that are not ready for investment due to the lack of proper documentation, investment knowledge and networks.

As a result, the country does not have adequate investment funds to meet the requirements of different sectors and, in turn, relies on banks to finance most growth projects; however, banks lack the appropriate products and risk mitigation instruments for financing many small and growing businesses. As a result, the mismatch between investment theses and demand for capital leaves a gap in the risk–return spectrum. And while a local stock market operates, to date it has only listed a handful of banks and a couple of large firms, and has limited transactions and liquidity, limiting suitable exit options for investors.

Rwanda’s small market size reflects a relatively smaller amount of investment activity compared to its neighbors. For example, at the time of the 2015 GIIN report, “only around 3 percent of all non-DFI impact capital disbursed in East Africa had been placed in Rwanda, amounting to approximately USD 44 million, the lowest of this report’s five focus countries. A similar percentage of all direct investment by DFIs in the region has been placed in Rwanda, totaling slightly more than USD 370 million disbursed through 43 direct investments.” Of the non-DFI impact investments, 65 percent of deals were in agriculture and 70 percent were deals under USD 1 million. However, compared to other countries in the region, the GIIN reports that “Rwanda’s openness to investors has led many non-DFI impact investors to target Rwanda.” During recent years, other types of FDI and investment have also been flowing into Rwanda and made by Rwandan investors themselves. For all businesses, Rwandan bank lending rates remain high, as discussed above, which provides a market opportunity for private investors who provide equity capital, cheaper debt options, or require less collateral for lending. Figure 2 provides an overview of investment in Rwanda by stage, providing a glance at some of the investment actors operating in the country, their investment interests as well as BDS and transaction advisory services at different stages.

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62 https://thegiin.org/assets/documents/pub/East%20Africa%20Landscape%20Study/08Rwanda_GIIN_eastafrica_DIGITAL.pdf

RWANDA NGURIZA NSHORE | BANKING AND INVESTMENT ANALYSIS - FINAL
In this section, we present the landscape for local investment, international and regional investment vehicles, venture capital including family-backed funds, and angel investment. We also detail the various international, regional and blended-finance facilities available for Rwanda. Finally, we include two case studies (one in this section, one in the section on donors) that demonstrate a different blended finance model, one in the tea sector and one in nutritional supplements/fortified food.

Local Investment Vehicles

Despite privatizations, the state holds interests (majority and minority) in many businesses including financial services, such as its 52 percent stake in Bank of Kigali, Rwanda’s largest bank. While private investors and professional investment advisors are emerging, many Rwandan investors are also public institutions or closely aligned with the state. For example, the Rwandan Patriotic Front, Rwanda’s ruling party, owns the holding company now called Crystal Ventures Limited (previously Tristar), Rwanda’s largest conglomerate. Over the years, it has built up a large portfolio of investments in food processing, logistics, construction and civil engineering, building materials processing and manufacturing, and real estate development. Similarly, the GOR Ministry of Defense-linked Horizon Group, has a large portfolio of investments spanning civil engineering, including road and bridge construction, logistics and clearing, real estate development (as a contractor and investor) and manufacturing (agrochemicals).  

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The **Rwanda National Investment Trust Ltd (RNIT Limited)** was incorporated as an investment management company on 1 August 2013 and licensed by CMA on 7 July 2015. RNIT is the only licensed and registered collective investment scheme\(^{64}\), operating a bit like a mutual fund in other countries. As a company whose shares are owned 100 percent by the Government, RNIT Ltd has been established through a cabinet paper, to promote and manage funds including unit trusts with a view to encourage savings for investment in the capital market. As such the Board of Directors and the Chief Executive are cabinet appointments.\(^{65}\)

**Rwanda Investment Group (RIG)** is a form of joint venture that is reportedly being replicated in districts. Cooperatives or joint ventures have become prominent in Rwanda, bringing together entrepreneurs who pool resources and form companies to invest in collectively agreed projects. This initially happened when the government, driven by the imperative to develop the tourism and hospitality industry, rallied several private sector actors to join hands with government entities to finance the construction of what eventually became the Kigali Serena Hotel. Subsequently, the government spearheaded the coming together of individual and institutional investors to establish the Rwanda Investment Group (RIG) for the purposes of financing large projects. The establishment of RIG eventually spawned similar groups across the country, culminating in the formation of district investment groups including the Kigali Investment Company, Muhima Investment Company and Rusizi Investment Company.\(^{66}\)

Currently, there is little information about these unregulated investment vehicles, although according to the CMA, MINECOFIN is organizing a study to determine the best way to regulate them.

**Agaciro** is the Rwanda sovereign wealth fund that was launched in 2012 through voluntary contributions of Rwandans at home and abroad and friends of Rwanda. It is modeled on Israel’s sovereign fund set up for diaspora. According to its 2016/2017 annual report, the latest available, the vision of Agaciro is to be a sovereign wealth fund sufficiently endowed to improve the level of financial autonomy of Rwanda as a nation. The fund can currently only invest in government securities, fixed deposits with commercial banks and other financial institutions, corporate Bonds, local and foreign Non-Fixed Income Investments such as publicly listed equity, private equity and joint ventures. Most of its investments were in government treasury bills bonds and commercial bank term deposits with private equity investments in the pipeline. The private sector continues to contribute to the fund figures but the momentum slowed down compared to when the fund was launched. Civil servants and company employees contribute one percent of their salary.\(^{67}\)

**Fonerwa**, Rwanda’s Green Fund, is an initiative of the GOR to support environment protection and deal with the impact of climate change. Capitalized from a variety of sources, including US$ 6 million from the GOR (and ongoing contributions from environmental fines and fees, environmental impact analyses and other environmental revenue and seed funding from domestic stakeholders), US$ 37 million from DFID, US$ 9 million from KfW, US$ 5 million from the United Nations Development Programme (UNDP) and $36 million in other leveraged and co-financed sources, Fonerwa funding is lent out at concessionary rates (14 percent per annum) through BPR to investments in conservation and sustainable natural resource management, research and technology transfer, environment and climate change mainstreaming and environmental impact assessments. To date, Fonerwa has invested in 33 projects including environmentally

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\(^{64}\) Although the law on collective investment schemes is a few years old, the CMA has yet to establish minimum capital requirements, although it expected to amend the law soon to do so and also to put in place related regulations.


\(^{66}\) [http://www.rnit.rw/](http://www.rnit.rw/)

\(^{67}\) [http://www.agaciro.rw/fileadmin/user_upload/Annual_Report_Agaciro_-_Web_V2.pdf](http://www.agaciro.rw/fileadmin/user_upload/Annual_Report_Agaciro_-_Web_V2.pdf)
friendly mining, an air quality and climate change program, biodiversity mapping, rainwater harvesting and a national e-waste management facility (among other investments).68

The Rwanda Stock Exchange is another avenue for raising private capital. So far only a few large companies have listed on the RSE. However, a new initiative is underway to support a small cohort of SMEs to raise capital on the stock exchange. This initiative includes supporting more firms to become investment ready and helping them to raise capital through commercial markets – either as private placements or on the stock exchange - should become more promising in the coming years. RSE management has set a target to support 100 SMEs across all sectors. With support from the USAID East Africa Trade and Investment Hub (EATIH) a call was issued asking interested SMEs to submit their requests for support. A selection committee, composed of RSE accredited firms selected and categorized the 100 SMEs into three groups: 1) SMEs that qualify for support and require technical assistance to raise capital on the RSE; 2) those that have good business ideas and require finetuning their business plans and structures requiring additional hand holding to become investment ready before starting to raise capital and 3) those SMEs that have good potential business ideas but need to develop their businesses through incubation and acceleration support before beginning a capital raise.

EATIH will facilitate advisory services from RSE accredited financial firms for a select number of qualified SMEs for restructuring to improve governance issues; financial planning (book keeping, projection of cashflows; develop business plan) and training staff in these areas. EATIH has also had some dialogue and engagement with several RSE licensed brokerage firms who are beginning to make investments in agribusiness SMEs but are also looking for more flexible financing options (like Grofin and BPI). Facilitating linkages like this will be an important role for Nguriza Nshore as well.

International and Regional Investment Vehicles, Venture Capital and Angel Investors

Rwanda is increasingly becoming attractive to international impact and commercial investors, given its own positive investment environment and location within the growing East African community. Some private venture capital funds have invested in Rwanda. For example, Fanisi Venture Capital Fund S.C.A., invested in ProDev shareholder of the maize processing enterprise Minimex founded by Felicien Mutalikanwa. Thousand Hills Venture Fund, founded by Rwandan American Antoine Bigirimana, has invested in the Rwanda Investment Group, Rocket 2020 (e-commerce) and Orgatex (cotton gin) as well as real residential estate, according to its webpage. 69 International non-bank lenders focused on SMEs with presence and portfolio in Rwanda include OikoCredit, Business Partners International, GroFin and AgDevCo. These are detailed below.

OikoCredit is a worldwide cooperative society founded 45 years ago operating from the Netherlands in 71 countries in Asia, Africa, Latin America and the Caribbean. It has seven regional offices including one in East Africa, as well as country offices including one in Rwanda where it started operating in 2012. In 2014 OikoCredit began working with MFIs, then later added agribusiness finance to its portfolio, all of which is supported by a team of six staff based in Rwanda and by an ag specialist based in Nairobi. The portfolio fluctuates between $7-$10 million given the seasonal nature (outstanding loan balances on the line of credit go up and down to a maximum of $10 million). Today 80 percent of the portfolio is ag, focused on maize and coffee, and 20 percent on microfinance. OikoCredit has eight active clients and 10 outstanding facilities with them. These include two MFIs and six ag SMEs (three in coffee processing and exporting, one in tea processing, one in rice processing and local marketing and one in maize processing.

68 http://www.fonerwa.org
The basic product is a line of credit, with a one-year duration renewable for up to three years, and annual reporting. They also offer a long-term loan for investment up to six years in local currency and up to 10 years in foreign currency. The base rate in local currency is the 180-day t-bill plus 2-3 percent for MFIs and 3-6 percent for ag (the current t bill rate is about 6.1 percent). Loans also must pay local withholding tax since OikoCredit lends international funds, this is equivalent to 15 percent of the interest charges. (not 15 percent more, but 15 percent of the interest charged). Loans in US$ pay 3.5 percent base plus a margin of 3-6 percent. Historically, OikoCredit has added one client each year and currently has a couple new clients in the pipeline for next year. Currently growth is constrained to current clients. When t-bill rates rose, their growth dropped. They also charge a commission of 1 percent that is deducted from disbursement and a management fee of 1 percent per annum on the outstanding balance for lines of credit. Interest rates are floating in local currency since tied to T-bill base rate, and fixed for foreign currency loans. Foreign currency is hedged which adds costs.

OikoCredit also makes equity investment but has not yet made any in Rwanda. The minimum transaction is $2 million and this is high for most Rwandan SMEs since OikoCredit’s policy limits their stake to no more than 25 percent. Grants are used for capacity building such as to achieve Rainforest Certification and training cooperatives in the supply chain.

NPLs are at 3 percent of the outstanding portfolio. OikoCredit initially lent without collateral, but this did not work well. It now works with the Africa Guarantee Fund from the AfDB, although it has yet to be tapped by Rwandan banks; this is worth exploring further under Nguriza Nshore. They also use global DCA for microfinance lending and previously used ICCO Terrafina. They also ask borrowers for collateral, a fixed asset, as well as a three-part agreement with the buyer, borrower and OikoCredit for repayment. Alternative sources of collateral are an issue. Repayment and amortization schedules are flexible taking into consideration the seasonal nature of the businesses.

**Business Partners International (BPI)** 70 is a fund management company that supports SME growth by providing financing, specialist sectoral knowledge and value-added services to viable SMEs in sub-Saharan Africa. BPI was established in 2004 as a subsidiary of Business Partners, to apply the investment model refined in South Africa to other African countries which have some of the fastest growing economies in the world. The company has been established in Kenya, Malawi, Namibia, Rwanda, Uganda, and Zambia. In 2014, BPI began investing in Rwanda, structuring individualized financing solutions using shareholders’ loans, equity, royalties and term loans – or any combination of these. It provides viability-based financing for entrepreneurs seeking investment of between US$ 50 000 to US$1,000 000 (paid out in local currency) for a maximum majority of 10 years (5 years for equipment). Its TA program (or mentorship program) provides value-added services for the entrepreneur (business owner) ranging from accounting support, problem solving, marketing plans to turnaround solutions. Up to 30 percent of its loans can also be used for technical assistance.

Business Partners International East Africa (BPI EA) is a US$35.9 investment vehicle that provides risk-finance and technical assistance to small enterprises in Kenya, Rwanda and Uganda. Business Partners, as one of the founding shareholders in BPI EA, has an equal 16.8 percent shareholder alongside IFC (International Finance Corporation, the investment arm of the World Bank); Dutch impact investor, Stichting DOEN; and the Dutch development agency, FMO and Norfund. The remaining 16 percent capital commitment is held by Swiss Development Company, the Swedish Investment Fund for Emerging Markets (SIFEM) 71, and Canadian based Mennonite Economic Development Associates (MEDA). To date, the BPI

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EA Fund has approved 30 investments to the value of US$6.67 million to SMEs in the region. Businesses that have benefited from this funding include a pharmaceutical manufacturer in Kenya, a printing business in Uganda and small shopping mall in Kigali Rwanda. BPI has no interest in investing in agricultural production or mining given the high volatility of these markets.

**Grofin** is a private development finance institution specialized in financing and supporting small and growing businesses (SGB) across Africa and the Middle East by combining medium term loan capital and value-added business support. Since its inception in 2004, it has worked with more than 30 international development finance institutions, development organizations and other private funds, and raised more than US$500 million toward ten funds and programs it manages. Headquartered in Mauritius, it operates in 14 countries in Africa and the Middle East including Rwanda since 2007 where it has lent over $20 million, of which over $11 million was lent in the last three years through its SGB fund. While it is open to funding SMEs across sectors on the understanding that consumers at the base of the pyramid need access to a complete range of goods and services, GroFin focuses on SGBs operating in education, healthcare, agri-business, manufacturing and key services (water, energy and sanitation) and in Rwanda with Mastercard it is focused on tourism and hospitality. Grofin has supported maize processing supply for AlF, fruit juice processor to achieve organic certification, acquire new equipment and packaging and to export to DRC, another in poultry, a school a clinic with a pipeline that includes a company in WASH, energy, fishing, tea and coffee around the country. With support from USAID through the EATIH it provides SGBs business support along with debt. In Rwanda Grofin currently has 19 clients with an average deal size of $350,000 (maximum can go up to $1.5 million) with $11 million outstanding. Loans have tenors from 3-8 years with customized repayment based on cash flow. The base rate is 16.75 percent, with 1-5 percent added based on risk factors such as experience and collateral which does not need to cover 100 percent. NPLs are 9 percent.

**AgDevCo** is an Africa-based debt and equity facility that invests in African agribusinesses that create jobs and improve food security. Started as a not-for-profit in 2009 in Mozambique with funding from the Norwegian government, AgDevCo has expanded rapidly with support from DFID, the Dutch Directorate General for International Cooperation and Mastercard Foundation and has made 55 investments to date totaling $135 million dollars. Since 2010 it has expanded to Tanzania, Zambia, Ghana, Uganda, Rwanda, Senegal, Malawi and Sierra Leone. It made its first investment in Rwanda in 2016 and to date, has invested $3.45 million in various agribusinesses including Kigali Farms Limited which produces oyster mushrooms for the urban market. Currently, AgDevCo operates in Rwanda as part of DFID’s Improving Market Systems for Agriculture in Rwanda (IMSAR) project.

**Venture Capital Funds Including Family-Backed Funds**

**Beyond Capital** is an impact investment fund that invests in for-profit social enterprises throughout India and East Africa. It focuses on seed capital up to series A ($50,000 to $350,000). It invests in businesses that are focused on expanding access to health care, water, sanitation and energy, as well as food security and financial inclusion, which can increase the quality of life and standard of living for consumers at the bottom of the pyramid. Although it seeks market rate financial returns, Beyond Capital is structured as a non-profit, which permits it to emphasize fidelity to the social mission alongside its financial mandate.

**The Howard G. Buffett Foundation** is increasingly investing in Africa in three key areas: food security, conflict mitigation and public safety. Several of the foundation’s investments have focused on Rwanda and Rwanda-Democratic Republic of Congo (DRC) economic integration. In 2016, the Foundation began investments (estimated at approximately US$500 million) in -- among other things – establishing 63 center pivot irrigation systems on about 1,200 hectares of land belonging to approximately 2,000 small-scale farmers in the Nasho sector of Kirehe District, and constructing a network of 34 kilometers of access
roads and a solar power plant with a capacity of 3.0 megawatts to power the irrigation system. The Foundation has also invested in hydroelectric facility on both sides of the Rwanda-DRC border in order to improve the one-stop border post and regional integration between the two countries.

The Sorensen Impact Foundation (US$250,000 - US$ 1 million) is a family office-backed fund with investments spread over three continents. It invests in companies that have developed scalable innovative and potentially disruptive solutions, in healthcare, education, water, sanitation and hygiene (WASH) and clean energy.

The Blue Haven Initiative ($250,000 - $ 1 million) is a family office fund with the aim to optimize financial returns and social impact, Blue Haven Initiative applies a wide range of investment products, from grants to direct equity investments into regional anchor companies such as M-Kopa and Twiga.

DOB Equity is a Dutch family-backed impact fund investing in socially responsible businesses across a variety of sectors in East Africa. It has an office in Nairobi, but has also made investments in Rwanda. Its investment threshold is $1 million.

The Medical Credit Fund (MCF) is a very active investment fund directly affiliated with the Dutch NGO, PharmAccess Group. The MCF is the only fund dedicated to financing small and medium-sized healthcare facilities in Africa. It has an office in Nairobi, but has also made investments in Rwanda. Its investments start at $500,000.

MCE Social Capital is an investor with a gender lens, that focuses on investment in MFIs. Sub-Saharan Africa including Rwanda is a focus region. MCE provides loans (non-secured, zero coupon debt). Besides having traditional lenders, they use a network of high net worth individuals (guarantors) who provide philanthropic guarantees to MCE for providing the loans to women. MCE is interested in pursuing new opportunities in Rwanda and supporting the growing SME investment and capital ecosystem.

Greentec Capital Partners is a German investment fund that has invested in the Rwandan tech start-up, ARED. It invests in African start-ups and SMEs with a focus on combining social and environmental impact with financial success. Greentec plays an active role in capacity building and process optimization. Its diverse team of international experts help entrepreneurs to implement adapted latest technology to their model so that they can extend their value chain and have more impact locally. Greentec’s focus is to have at least 75 percent impact focused enterprises. It currently has ten companies in its portfolio and aspires to grow its portfolio to 50 companies by 2020.

The Acumen Fund was incorporated in April 2001 with seed capital from the Rockefeller Foundation, Cisco Systems Foundation and three individual philanthropists. The organization invests “Patient Capital,” to bridge the gap between the efficiency and scale of market-based approaches and the social impact of pure philanthropy, in entrepreneurs bringing sustainable solutions to big problems of poverty. They invest in early-stage social enterprises, providing the tools, networks, technical assistance and strategic guidance. Acumen Fund currently has $50 million in funding focused exclusively on Rwanda and Kenya and plans to grow this to $75-$100 million in invested capital. Acumen makes larger, later-stage growth investments in off-grid energy companies with the aim of impacting 15 million lives over the next 15 years.

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73 The Howard G. Buffett Foundation 2016 Annual Report.
74 https://acumen.org/about/
The Voxtra East Africa Agribusiness Fund’s focus is Kenya, Tanzania and Uganda, and it is in these three countries they have invested to date. However, the fund is also mandated to invest in Burundi, Ethiopia, Malawi, Mozambique, Rwanda and Zambia, and they are actively exploring opportunities in these countries. Norfund, Norway’s DFI, has a 20 percent equity stake in Voxtra. Voxtra’s investments range in size from USD 500,000 to USD 3,000,000 but only in companies whose success is tightly linked to improving the livelihoods of smallholder farmers. Voxtra offers equity, quasi-equity, mezzanine or debt – tailored to the needs of the business – with a typical investment period of 5 to 7 years. Voxtra provides growth capital to companies across the agricultural value chain from input provision to processing and distribution, working with companies that have an established track record, significant potential for further growth, reputable managers, and willingness to adhere to high standards of financial reporting and governance.

The IGNITE Fund was founded by Spark, a Dutch NGO and launched in 2014. IGNITE invests in small and growing businesses (SGB) in fragile and conflict-affected states. It identifies and invests in market leaders or potential market leaders in their respective industries which are managed by exceptional entrepreneurs. IGNITE pays special attention to those businesses operating in agri-processing and light-manufacturing space with strong business fundamentals and secure cash flows, and places high priority on those businesses with great potential to create jobs and tangible economic benefits to help stabilize their fragile society. IGNITE has invested in Norelga Macadamia Ltd., a market-leading macadamia nut processor in Kigali, and Le Grenier, a Kigali-based bakery.

Angel Investors
BiD Network, among other transaction advisory firms, works with Angel Investors, high net-worth and successful individuals who come together individually or as a group to invest in certain entrepreneurial ventures, basis their risk appetite, preference for a certain financial structures and expected returns. These investors can be generally classified into two types of investors:

- Successful business people who wish to share their expertise and business networks with emerging market businesses to replicate success while simultaneously investing in the company. They are often interested in the impact of these businesses on people and solving critical societal problems while generating revenue. They tend to be more interested in equity deals.
- High net-worth individuals with family capital who are more focused on impact. They tend to accept less than market returns and in general, are fine with breaking even on investments. They prefer simpler loan structures.

Key characteristics of Angel or Informal Investors are:

- Diverse group / individuals with different backgrounds which add valuable insights to entrepreneur / organization basis strong experience;
- Strong sense of relativity with entrepreneur business model and personal touch with founding team;

http://www.spark-online.org/about-us/annual-reports/work/ignite-fund/
• Limited risk appetite depending upon their capital availability – they tend to invest in only those businesses which make some correlation or sense for them and they are ready to take up higher risks with businesses in startup phase;

• Due to the limited investment size per investor, these investors often form a syndicate with known networks to try and find the best mix of added value (based on sector/ functional expertise; bringing in networks; or even share capacity);

• In 2017, investments per angel investor ranged from $ 5,000-550,000 per deal, however on average around $ 30,000-50,000 per person per deal; and

• With Early Stage Growth Capital, angel investors tend to focus more on the business opportunity or potential impact. They accept a relatively high risk, instead of trying to secure the full investment, in cases such as banks.

International Development Finance Institutions and Blended Finance Facilities
The Development Credit Authority.
The DCA is a partial credit guarantee offered by USAID to reduce risks to generate additional lending to underserved markets and sectors. It is intended to demonstrate the long-term commercial viability of lending in developing markets. It may be offered as a portfolio guarantee to a financial institution that lends to a portfolio of borrowers (e.g., SMEs), as a loan guarantee for an identified lender and borrower (e.g. one large loan from one lender to one large borrower), as a portable guarantee for an identified borrower and unidentified lender (e.g. one large loan for one large borrower), or as a bond guarantee.

The DCA guarantee is backed by the full faith and credit of the U.S. Treasury. Typically, a 50 percent pari passu guarantee is provided on loan principal (not fees or interest).77 Lenders share recoveries pro-rata with USAID net of reasonable documented expenses incurred. Guarantees are also only provided on non-sovereign debt capital. Guarantee on disbursements are also typically used for term loans. DCA has the flexibility to provide the guarantee in local and/or foreign currency and for loan maturities of up to 20 years (loans can be shorter). Loans are registered online in an internet-based Credit Management System. Pre-approval is not required for individual loans placed under loan portfolio guarantees. Guarantees may be paired with USAID or other technical assistance projects that can strengthen the borrower’s ability to repay and/or support the financial institution’s lending capacity in a new sector.78

Overseas Private Investment Corporation (OPIC)79
OPIC is the development finance institution of the United States Government providing debt and guarantees to firms with at least 25 percent US ownership operating in development countries. OPIC has provided $19.4 million in political risk insurance to Rwanda Trading Company (RTC), a subsidiary of Little Rock, Arkansas’ Westrock Coffee Holdings LLC, to support its investment in modernizing a coffee milling and processing plant in Kigali. OPIC developed insurance products to address the specific risks facing the agriculture and coffee sectors in Rwanda. The insurance included coverage for regulatory risks such as potential interest rate caps that could interfere with its ability to provide loans to farmers, imposition of a change in coffee tariffs, and trade route disruptions as well as coverage for potential business interruption related to expropriation or political violence that could impact coffee growers. OPIC also created a new

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77 This means the lender and DCA each share the risk of lost loans equally, or pari passu 50%. Only the amount lent, or the principal is guaranteed to be repaid by the guarantee mechanism if the loan is not recovered; interest and other fees are not covered by the guarantee.


RWANDA NGURIZA NSHORE | BANKING AND INVESTMENT ANALYSIS - FINAL
multi-country transport coverage for agriculture businesses in landlocked countries that need to get export products to port. For RTC, this insurance covered coffee shipments through Uganda, Tanzania and Kenya to ports in Mombasa, Kenya and Dar es Salaam, Tanzania.

**African Development Bank**

The AfDB most recently approved a $30 million loan for the Rwanda Innovation Fund as described above in the “Public Policy for Finance and Investment” section. This loan will be utilized for private sector investment and leveraging private capital for Rwandan businesses. AfDB has also extended a $20 million credit line to I&M Bank for SME lending.

**African Guarantee Fund (AGF)**

The AGF is a Pan-African non-bank financial institution created in 2011 by AfDB, the Danish International Development Agency (DANIDA) and the Spanish Agency for International Development Cooperation (AECID). It was recently joined by the French Development Agency (AFD) and the Nordic Development Fund (NDF). AGF’s primary mandate is to assist financial institutions in Africa to scale up their SME financing through the provision of partial loan guarantees and capacity development assistance. Since its establishment, AGF has signed close to $1.2 billion of guarantee agreements with 84 Partner Financial Institutions in 38 African countries. Approximately 8,600 SMEs – of which 60 percent are owned or led by youth – have been able to access loans through AGF’s guarantees.

The AGF established a Green Guarantee Facility, and in partnership with OikoCredit launched a $10 million guarantee over 10 years to finance MFIs, agriculture and renewable energy SMEs and cooperatives serving low-income populations in Sub-Saharan Africa. This is in addition to an existing $8 million guarantee that has been in effect since 2013. The agreement comes with a technical assistance component under which OikoCredit will undertake various capacity building interventions with its partners.

**International Finance Corporation**

IFC is engaged in a variety of finance and investment activities in Rwanda. For example, in 2018 IFC invested $10 million in a subordinated loan to I&M Bank to expand its lending for SMEs. IFC’s advisory arm will support I&M to develop their SME strategy and roll out new SME focused financial products. Similarly, it is working with Bank of Kigali to help them to move into several different market niches including insurance, agriculture, housing, leasing and digital finance. Digital finance, leasing and insurance are likely to be different subsidiaries. IFC will help them change their capital structure and to transform.

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82 [https://www.gafspfund.org/content/aif-processing-facility](https://www.gafspfund.org/content/aif-processing-facility)
Case Study: Blended Finance Enabling a Coordinated Value Chain Response in the Creation of Fortified Food

Africa Improved Foods (AIF) is an organization founded by Royal DSM in 2017, with additional investment from IFC, CDC UK and FMO currently operating a $45 million factory in the Kigali Special Economic Zone in partnership with the government of Rwanda to address malnutrition by manufacturing enhanced nutritious foods for vulnerable groups including the rural poor in Rwanda and the East Africa region. The company makes several fortified food products aimed at children within the first thousand days of life, as well as relief foods for the World Food Programme that are distributed to the most vulnerable populations in refugee camps in Kenya, Uganda, Somalia and South Sudan. The plant has an annual production capacity of 45,000 tons making it one of the largest nutrition factory sites on the continent. AIF works with over 24,000 farmers across Rwanda and produces meals for 1.5 million people every day. In 2017 the company spent $17 million in regionally sourced packaging, equipment and services.

AIF sits at the top of a complicated, value chain-focused, blended finance program that involves numerous organizations including AGRA and WFP that work to improve the quality of product ingredients including grade A (free of aflatoxin), milk and soya, several off-takers including EAX, ProDev and Sarura Commodities, six financial institutions including KCB and Duterrimbere Microfinance that finance inputs for farmers and off-takers for harvest collection and processing. While the facility has demonstrated an effective way to blend concessional loans, commercial loans and equity investments, AIF has not yet been able to source all core inputs for its products from Rwanda given ongoing challenges at the farm and post-harvest levels of the value chain. For example, in the last growing seasons not all the farmers were able to access loans for inputs that would enable them to begin planting on time. Additionally, some cooperatives have been unable to sort out storage issues which has led to an inability to produce sufficient, high quality, aflatoxin-free grain. Indeed, it is only now that many of the backward linkage issues are being address in AIF’s value chain. Nonetheless, if the company and its many partners can sort this out, this model could prove to be an interesting one for other sectors, given its pull of new SMEs into the value chain and its potential to increase farmers’ incomes.

Sources: World Food Programme Farm to Market Alliance, AIF website and BIA interviews

In 2014 IFC issued its first bond denominated in Rwandan francs, raising 15 billion francs (approx. $22 million) to support the country’s domestic capital markets. The IFC “Umuganda” bond was the first ever international AAA-rated Rwandan franc bond issuance in Rwanda and the first non-sovereign issuance since 2010. The bond has a five-year tenor due in 2019 with a semi-annual fixed rate coupon of 12.25 percent. Managed by Standard Bank and Bank of Kigali, the bond has experienced strong participation from both local and international investors (It was oversubscribed by 2.2 times). The IFC also recently conducted the Rwanda Investors’ Perception Survey 2018 (not yet publicly shared) and is working on investment and business enabling environment and policy issues.

In 2015, it facilitated investment in AIF (see case study side bar) with funding from the private sector window of the Global Agriculture and Food Security Program (GAFSP), a fund managed by IFC. The private sector window uses blended finance solutions and concessional funding to support projects which may not attract commercial funding due to perceived high risks in the agricultural sector. GAFSP co-invests alongside IFC funding and helps address market failures by providing risk mitigation and more affordable terms to farmers. The investment in AIF was preceded by IFC and GAFSP support for a program with KCB to provide financing and training for eleven farmers’ cooperatives to help them boost maize and soy production for supplying the food processing plant. IFC has also invested in the NBFIs, BPI and Grofin.

IFC has also indicated interest in expanding micro-leasing in Rwanda, possibly in collaboration with BK. IFC supported amendments to the leasing law but the revised law has not been widely shared. IFC has plans to organize a workshop and share this with the market.

Finally, the IFC would like to work with BDF to spin off a special purpose vehicle (SPV) for Rwanda, similar to what SME Venture (a separate group within IFC that provides both risk capital and technical assistance to entrepreneurs and fund managers in the world’s most challenging markets) has done in Liberia and

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several other African countries. This SPV would provide entrepreneurs with risk capital—such as equity, loans, and quasi-loans—combined with technical assistance. IFC would also provide support to a local fund manager to manage the SPV. IFC would like to build off the BDF’s business development centers, adding incubators and hiring a strong business strategy and operations team to support up to 40 businesses in each center. IFC specialists believe this could be something that the banks (and others) invest in to create a pipeline of businesses for the bank.

World Bank Rwanda
The World Bank recently launched a $49 million credit facility to support off-grid renewable energy through the Rwanda Development Bank, as described above.

European Investment Bank (EIB).
In February of 2018, the EIB established two new financing programs, a €14 million credit line with the Development Bank of Rwanda (BRD) and a $10 million lending program managed locally by I&M Bank Rwanda and accompanying technical assistance. This is the EIB’s largest ever support for private sector investment in Rwanda. This is the second EIB line of credit to both local banks. The first line of credit agreement was signed in 2007. EIB signed two agreements, one for €7 million with BRD and another for €3 million with Banque Commerciale du Rwanda (now I&M Bank).

European Fund for Sustainable Development (EFSD).
The European Union has just set up this new fund, which includes existing blending facilities (with the EC providing grants or soft loans to de-risk DFI debt or equity investments) and a new additional guarantee fund. The guarantee could be provided on top of blended funds to further de-risk investment and thus channel more funds to challenging environments/markets/beneficiaries. Priority sectors for the guarantee include energy, agriculture and SMEs. To date, no guarantee has been utilized, although there are requests in the pipeline with the first contracts expected in quarter 4 of 2018. In all cases, the blended funds and the new guarantee are managed by selected European DFI partners, such as the EIB, EBRD, KfW, AFD, who have responsibility for selecting beneficiaries.

Commonwealth Development Corporation (CDC)
CDC has capital at work in 164 funds operating in 74 countries around the world. CDC is the largest single investor in private equity funds in Africa, supporting 58 funds investing in 32 out of the 54 countries on the continent. CDC’s Impact Accelerator recently directed invested in Africa Improved Foods. Other investment in Rwanda include two investments totaling $33 million in GroFin, investment in MFIs such as Access Bank Rwanda and CMIMC (Catalyst Microfinance Investment Management Company), and renewable energy utility DC Frontier Energy.

Kreditanstalt für Wiederauf (KfW) and BRD Export Growth Fund (EGF)
The GOR, the BRD, and KFW have launched a €8.5 million (about RWF 7.5 billion) Export Growth Fund to support export-oriented firms. The Fund will ease access to export-related funding and aims to broaden and deepen the range of products and services offered by financial institutions to SMEs with export potential, or those that are already active in the export sector. The EGF is designed as a single facility with three separate windows: (1) an investment catalyst fund, (2) a matching grant fund for market entry related

86 https://www.kfw-entwicklungsbank.de/International-financing/KFW-Development-Bank/Local-presence/Subsahara-Africa/Rwanda/
http://www.wda.gov.rw/en/content/kfw-supported-projects-pleasing-progress

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costs, and (3) an Export Guarantee Facility. The Matching Grant Fund provides matching grant to firms investing in activities specific to exporting that are not necessarily a consideration when not exporting; the Investment Catalyst Fund provides a subsidy on the interest rate of loans targeted toward private sector investments in export oriented production; and the Export Guarantee Facility provides transaction-related guarantees to commercial banks to securitize export finance transactions up to 80 percent of value.

BRD will provide loans of about €6 million (about RWF 5.3 billion) to financial institutions for on-lending to export-oriented SMEs in Rwanda, as well as €2.5 million (about RWF 2.2 billion) for capacity building to support the implementation of the project. Local producers and exporters will be able to access the funds at less than 10 per cent interest rate. BRD has agreed that the Fund will be made available to identified export-oriented SMEs via a selected number of partner financial institutions such as BPR, I&M Bank, Ecobank and Urwego Opportunity Bank. The focus is to encourage private sector investments in exports through subsidized loans at 10 percent interest per annum (this is a reduction on the market average interest rate of 16.5 percent since EGF will pay the extra 6.5 percent). In the past BRD has also provided grants to some SMEs to support the process of getting their export certifications. To be eligible SMEs must be a registered in Rwanda (with a turnover ranging between US$ 50,000-$1,000,000), operating, owned and controlled in Rwanda, and operating in horticulture, agro-processing or manufacturing sectors. As with other facilities, Nguriza Nshore will assess and explore opportunities, for partner banks (those supported by the project with technical assistance) to tap the fund and will work with BRD to address any choke points that might limit SME engagement.

Proparco and FMO Credit Facility

In October 2017 Proparco and FMO signed a USD 30 million loan to BPR, with both providing US$ 15 million each. Proparco has acted as the mandated lead arranger of the USD 30 million credit facility. FMO has made direct investments in 8 Rwandan companies since 2014, totaling $49 million. This includes companies in the energy, agribusiness, and cellular infrastructure sectors. FMO has invested just over $9 million in Africa Improved Foods since 2015. FMO’s investment criteria considers the investment plan and development impact, with a consideration for projects that foster the transition to a more inclusive and greener economy. FMO is required to test all its investments against financial additionality, ESG additionality (such as green and inclusive development impact) and catalytic role by mobilizing third party funds.

Green Climate Fund

The Green Climate Fund (GCF) is an operating entity of the financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC) and Paris Agreement, dedicated to supporting global efforts to respond to the challenge of climate change. GCF aims for a 50:50 balance between mitigation and adaptation over time. It also aims for a floor of 50 percent of the adaptation allocation for particularly vulnerable countries, including least developed countries, small island developing states, and African States. The Fund is governed by a 24-member Board, comprised equally of developed and developing countries. It makes decisions based on consensus among all Board members.

In Rwanda, in collaboration with GCF Accredited Entity with the Ministry of Natural Resources, GCF funded the 6 year $33.2 million Strengthening Climate Resilience of Rural Communities in Northern Rwanda, benefitting 531,465 people. The project received $147,000 in co-financing from Rwanda’s Green Fund, Fonera, $107,000 from the District of Gicumbi, and a $106,000 from the Wood Foundation.

87 https://www.fmorwanda.org/about  https://www.fmorwanda.org/projects
Overall for Africa, the GCF has approved 28 projects valued at a total of $1.6 billion in GCF funding and $3.6 billion in co-financing.

The GCF Board has approved a Simplified Approval Process Pilot Scheme to simplify and streamline the approval of grants for certain small-scale projects, particularly from direct access entities (national and regional entities nominated for accreditation to the GCF by designated national authorities). Projects or programs are eligible for the SAP if they are ready for scaling up and have the potential for transformation, promoting a paradigm shift to low-emission and climate-resilient development; request financing to the GCF of up to USD 10 million of the total project budget; and the environmental and social risks and impacts are classified as minimal to none.

GCF can finance private sector projects relating to mitigation and adaptation activities using debt, equity, and guarantees and can combine these instruments with concessional funding to promote private sector investing. GCF’s core activities include clean energy, energy efficiency, climate-related innovation, resilient infrastructure, products and services for vulnerable communities, agriculture, forestry, food, water security, and ecosystems preservation. Proposals for projects or programs meeting the eligibility criteria can be submitted by accredited enterprises, national designated authorities or focal points, with an emphasis on the participation of direct access entities.

**Role of Business Development Services and Transaction Advisors in Building Bankable SMEs and Facilitating Investment**

Given the relatively nascent entrepreneurial ecosystem and early market development in Rwanda, many SMEs require business development services to develop their business concepts, operations, management and governance capacity. Inkomoko is a business accelerator for early stage businesses that also offers qualified SMEs access to a small loan fund. To enhance firms’ investment worthiness, specialized SME lenders such as GroFin and investment facilitators such as BiD Network, Karisimbi, Dalberg and Open Capital Advisers (OCA) build business development services into their investment or financing package. Some banks have also supported some BDS (provided by outside providers and often partially or fully subsidized by donors) and many consulted for this BIA indicated they would like to see more BDS and financial literacy provided to SMEs to enhance bankability. However, banks generally do not provide BDS because of the high cost involved which would be passed on to the client. Others are sector specific (particularly around ICT). As far as transaction and investment advisors go, BiD Network, Karisimbi Partners, Dalberg and Laterite are firms with offices and staff based in Kigali, while CrossBoundary and Open Capital Advisors service the market from their regional Nairobi office and transaction advisory teams. PUM provides experts from the Netherlands.

**BiD Network** is a Dutch transaction advisory firm with offices in Amsterdam, Kigali and Kampala. BiD Network supports entrepreneurs in emerging markets in making them investment ready and subsequently facilitating the required investments for growing their businesses. They have built up a large global network of both private and institutional investors. Since their establishment in 2007, they have facilitated 235 deals worldwide for $34M with an average investment side of $140,000. Compared with other transaction advisory firms, BiD Network has focused on the “missing middle” and providing investment finance to small enterprises, compared to some of its competitors like CrossBoundary and OCA who have focused more on medium sized companies. It offers personal investment deal-making services, impact investment trips, investor master classes and networking activities. Its investor trips to East Africa allow investors (mostly angels) to meet and interact with portfolio companies. Two of these trips to Uganda in 2017 led to eight investments, all below $100,000 largely made by syndicates of angel investors. BiD Network has been an active contributor to the Rwandan SME ecosystem since 2010 and facilitated 11 investments in Rwanda for approximately $2.3 million. Through its partnership with the International Fertilizer Development Center (IFDC) in 2014–2015, it actively supported Rwandan non-farm agribusiness SMEs,
working with 69 on investment readiness, coaching and supporting 12 SMEs to develop and refine their business plan and strategy, and linking six SMEs to investor financing. In 2017, BiD Network facilitated 12 investments for Ugandan SMEs for nearly $4M, ranging in size from $30,000 up to $2 million.

**Inkomoko**

Inkomoko operates a business accelerator and provides consulting services to start-up entrepreneurs and small and medium businesses in Rwanda. It is established as a for-profit entity owned by and affiliated with the African Entrepreneur Collective. Currently they have a team of 60 staff including tax advisors, website and graphic designers, and provide technology tools for SMEs as well as support in human centered design, business model canvas and support to get investment and finance. It operates on a fee for service model, charging entrepreneurs as well as donors. Its core offering is a three-day boot-camp followed by 100 hours of tailored advisory services over seven months. After two months in the program, enterprises are eligible for access to the loan fund.

It has advised over 1700 enterprises that they report have created 5,000 jobs. With headquarters in Kigali, they also have plans to open an office in Musanze as part of their focus on the tourism sector in partnership with Mastercard Foundation. It supports a range of businesses in the technology, agro-processing, production, retail and other sectors. Minimum requirements are to have been operating for at least six months, and while some firms they’ve advised are well established with a decade of experience, most are less than four years old.

In addition to the acceleration and BDS, Inkomoko offers access to a revolving loan fund supported by the Africa Entrepreneurship Collective (and attracted through Kiva) for loans up to one year and US $50,000 with flexible repayment terms. The average loan size is about US$ 10,000. To date it has lent to 35 enterprises and have a total of US $800,000 available for lending.

It also has partnerships with I&M Bank and GroFin for financing enterprises, Bank of Kigali for a business plan competition that provides winners with zero percent loans for firms that receive Inkomoko business readiness support, and are starting new programs in the tourism sector with Mastercard and with UNHCR and the US State Department to support refugee entrepreneurs in Rwanda.

**MutiCapital**

MutiCapital is a small start-up firm, specializing in supporting technology roll-outs in Africa, developing appropriate technology software for informal sectors in Rwanda, and investing seed capital in technology/software development/innovations. MutiCapital engages with companies in three areas of technology:

- Go-to-Market tech – working with big technology firms to rollout systems in the region

- Development of software systems for the informal sector. MutiCapital has developed two software systems so far, one for a diary processing firm and a second for hair salon; a third solution is in the pipeline for potato collection centers.

- Seed capital to invest in innovations/software developments.

Under its software development, MutiCapital is already working with one firm in dairy processing (system deployed at collection center) and another one with hair salon. Its next software is planned with potato business dealer to be deployed at collection centers.
**Entreprenarium Foundation**
Entreprenarium Foundation is a Rwanda-based organization that works to strengthen local businesses, especially those owned by youth and women. With support from the Foundation BCFI Banka and the Organisation Internationale de la Francophonie, Entreprenarium manages several programs including a Business Plan Booster program which provides advising services to SMEs to raise funds, develop new products, improve operational performance and define a growth plan; and Women Capital Raising, a six-week training designed to equip women entrepreneurs with the necessary skills and resources to succeed in starting and operating small or medium businesses.

**Karisimbi Partners.**
Karisimbi Partners is a boutique advisory services firm that has been operating in Rwanda since 2009. A preferred service provider for the government, investors (including AgDevCo), and to several donor organizations/projects, Karisimbi offers a variety of services including market research, value chain analysis, financial modeling, investor relations, accounting, budget and cashflow forecasting, and financial management training, and pitch deck development. For each client, they work to create a suite of tools that can be used. In addition to advisory services, Karisimbi has made some investments in an accountancy, a natural oils processor, in a fish farm and a technology project. Karisimbi works on a cost share basis or performance basis. Although they have worked in a variety of sectors, especially agribusiness, construction and infrastructure, they consider themselves to be business generalists. Karisimbi has consulted for the RDB, the African Healthcare Network, Kate Spade, USAID Power Africa and Feed the Future projects (USAID Private Sector Development for Agriculture – PDSAG and USAID Climate Economic Analysis for Development, Investment and Resilience), several commercial banks and the Private Sector Federation.

**Dalberg**
Dalberg is in the process of establishing offices in Rwanda and is working with both GOR clients and several donors on strategy and learning. Specifically, Dalberg is supporting the RDB in investment promotion work, specifically looking at a policy framework that will enable smaller investments, particularly in agribusiness in export horticulture. It is also working with the Mastercard Foundation on its new tourism program to build out education and workforce for the hospitality sector. With the Dutch organizations SNV and IDH (Sustainable Trade Initiative), Dalberg is doing investment readiness work to enable horticulture businesses to access direct debt finance up to $3 million.

**Laterite**
Although not specifically working just in the business development and investment space, Laterite provides market research and data collection services using the latest available methodologies and tools. It advises organizations on the design and implementation of research projects and helps leaders design more targeted policies based on rigorous evidence and research.

A handful of management consultants and transaction advisers such as Open Capital Advisers, Cross Boundary and larger corporate strategy and business consulting firms like BCG, Deloitte and McKinsey support Rwandan businesses from Nairobi and Kampala. The latter are not usually focused on SMEs.

**Open Capital Advisers**
OCA is a management consulting and financial advisory firm founded in 2010 with offices in Nairobi, Kampala and Lusaka. It supports high potential businesses, investors and development partners in sub Saharan Africa. OCA assists clients to develop strategic approaches, implement best practices and raise funds to drive growth. The firm has supported more than 400 firms across 20 countries and has raised

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89 [https://www.laterite.com/](https://www.laterite.com/)
to date $400 million in capital from impact and commercial investors and development organizations. It has worked with some of USAID Private Sector Development for Agricultural Growth (PSDAG) Project’s SME clients to attract investment and finance in Rwanda.

CrossBoundary
CrossBoundary is a frontier market investment firm founded in 2011 with broad experience providing opportunity sourcing, due diligence, transaction advisory and investment expertise in sub-Saharan Africa. The firm has significant experience working with development organizations to source, structure and close a pipeline of investments through tailored transaction services. With three offices in sub-Saharan Africa (Nairobi, Bamako and Johannesburg), CrossBoundary takes a transaction-centered approach to frontier markets, working with investors to navigate unconventional markets and support frontier market companies to identify and raise capital. Its advisory clients include governments, development finance institutions, private equity firms, fortune 100 companies and research institutions. CrossBoundary has supported USAID investment facilitation endeavors in East Africa under the USAID EATIH Project, under Power Africa in Kenya, in West Africa in Mali under a financial sector facilitation program, and provided their expertise to Washington and Africa-based advisory contracts, such as USAID INVEST, USAID Investment Support Platform and USAID Financing Growth programs. For these projects, CrossBoundary has conducted landscape analyses, provided guidance on the launch of funds and investment support services, and has provided other advisory services to USAID missions on investment mobilization in health, energy, and agricultural finance sectors, and on impact investment with a gender lens.

PUM
PUM is a Dutch volunteer organization that connects more than 2,000+ senior business experts to businesses in developing countries. PUM has a presence in 35 countries and they execute around 2,000 missions worldwide annually, of which 40 are in Rwanda. PUM has been a strategic partner for BiD Network, providing additional business support to their identified entrepreneurs, when required. BiD Network provides the access to finance for their companies, when required.

Private Sector Federation (PSF)
This is a membership-based association/platform for business in Rwanda open to business professional organizations including chambers, cooperatives and industry-based associations. PSF leads in advocating for creation of a pro-active business environment that encourages private sector investment and job creation. It organizes regional and international study tours and trade missions to explore, identify and penetrate regional and international markets. PSF provides trainings for its members in addressing capacity gaps, including entrepreneurship, skills development, management and advocacy. It supports member access to international and regional markets by facilitating information on and participation in international trade fairs to enhance sales, market share and competitiveness and coordinates with entrepreneurs regionally and internationally to create a networking platform for its members. PSF used to have Business Development Services across the country – at District level. However, these services are no longer provided due to lack of resources to sustain them.

Other Investment Advisory Firms in Rwanda
Other investment advisory firms operate in the Rwandan market, several of which are registered with the RSE. These firms include regional stock brokers, investment banks and investment transaction advisors, including90 FAIDA Securities Rwanda, African Alliance Rwanda Securities, CDH Capital Limited, Baraka Capital Limited, MBEA Brokerage Services Ltd., Core Securities Ltd., SBG securities Ltd. BK Capital Ltd, Dyer and Blair. The majority of these firms do not focus on SMEs. However, USAID through the EATIH

90 http://www.rse.rw/site/pages/rse+members/7
is beginning to engage with a few of these investment advisory firms to support SMEs that are preparing to access the capital markets in Rwanda.

**Potential to Tap into Pension Fund Assets for Medium-Long Term Investments**

The RSSB, the public pension fund, is the largest financial institution in Rwanda and the most important source of long-term capital in the market with $634 million in total assets (2016 data). RSSB investments are guided by the Investment Policy Statement (IPS) which serves as a guide for all investment decisions. This policy guideline is reviewed as need arises to ensure that it remains an effective document, reflecting current investment, legal, regulatory, and economic environments. RSSB can invest pension assets in areas that ensure pension value is retained, earns profits, and leads to social impact. The law is broad and does not limit where to invest.

RSSB has invested in various portfolios. It holds assets in bank term deposits (33.9 percent), 25.9 percent in local equity, 14.4 percent in real estate, 12.2 percent in treasury bonds, 5.7 percent in treasury bills, 4.7 percent and 2.6 percent in foreign equities in current accounts, among other smaller investments as per 2016 available public data. While RSSB does not have a minimum nor maximum transaction size limits, they do depend on thresholds in the equity arrangement.

RSSB has experience in investing in agribusiness with an equity stake in a soybean processing facility, and states it is very open for investing further in agribusiness and SMEs. Its preference is to leverage experienced firms to achieve growth, quality standards and social impacts. It does not invest in start-ups. Going forward, RSSB is interested in focusing on value chains – in terms of de-risking, provision of guaranteeing value and quality. It would look to Nguriza Nshore to come up with a proposal of working towards de-risking in agribusiness in selected products. Nguriza Nshore will begin exploring this and the level of effort that would be required.

**Challenges Including Policy Gaps and Investment Environment Perceptions**

In June 2018, the World Bank group released the Rwanda 2018 Investor Perceptions Survey which found that 40 percent of international companies surveyed rate Rwanda as attractive or very attractive (like Uganda and Tanzania, lower than Kenya), with 25 percent unsure. Potential international investors surveyed noted strengths in political stability/safety (38 percent), economic growth (28 percent) and ease of doing business (24 percent). These international investors are looking to invest in greenfields, as well as joint ventures, strategic partnerships and mergers and acquisitions with local firms. The limited market size and land locked geography are the main weaknesses noted, although for some the small size is a plus for pilot testing. Also, the location of Rwanda, with access to several other African countries, is also considered a plus.

For over 50 percent of domestic investors surveyed, political and economic stability and security are key location drivers, while over 90 percent find Rwanda attractive or very attractive, well above their perceptions of neighboring Kenya or Uganda. For 44 percent of those that have invested, the attractiveness of the Rwanda market itself as a reason for choosing to invest in the country. At the same time, 79 percent cited the small market as a challenge, with the quality of labor and production costs also posing severe challenges for over half of respondents, especially in manufacturing.

Over 92 percent of existing investors indicated they have plans to expand investment in Rwanda. Among all investors, lack of skilled labor, high tax levels and their un-predictability, as well as power, are the most

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91 Rwanda Social Security Board website.
92 Ibid.
highly noted challenges to growth, with working capital also being a severe constraint for 18 percent of respondents. The size of the local market, the costs of inputs, and transportation costs to ports are all constraints, especially for manufacturing.\(^{93}\) While this survey did not focus on SMEs and agribusiness, it can be used as a proxy for issues that also affect these firms and their investors.

In addition to the IFC survey, existing foreign investors in Rwanda and investment advisory firms interviewed for this assessment noted their generally positive experiences in Rwanda, citing Rwanda as an attractive investment location, the ease of registration, and strong contract enforcement at the corporate level. In general, private sector companies found it easy to engage with government, although noted a desire to be more involved at earlier stages of large government investments, moving away from the previous model of "build it and they will come," to an approach where private companies invest alongside government. Similarly, there were some concerns echoed about the use of subsidies by the BDF to "invest in enterprises" that could crowd out commercial investment.

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DONOR AND DFI ENGAGEMENT IN SME AND AGRIBUSINESS FINANCE

Key Initiatives Supporting SME and Agribusiness Finance

In addition to the engagement of private investors, bank and other financial institutions, several donor-funded programs have components or initiatives to stimulate investment and debt finance for SMEs and agribusinesses. This section includes some of the key donor-funded program as well as some of the blended finance mechanisms they have used to expand access to finance by SMEs and leverage additional investment.

Access to Finance Rwanda

AFR is multi-donor trust fund supported by USAID, DFID, KfW, the Swedish International Development Cooperation Agency (SIDA) and the Mastercard Foundation. It is part of the Financial Sector Deepening programs in Africa. AFR’s pillars of work include: digital finance, agricultural finance, insurance, SACCOS, monitoring and evaluation and knowledge management. In these pillars, it focuses on policy and regulatory support, assisting the government with any needed policy reforms, funding research including the FinScopes survey which understands in depth access to finance issues in the country, and support for product development.

Within the area of digital finance, AFR supports the development of common and shared infrastructure including agents, cards and other services that support interoperability (peer-to-peer, mobile network operator (MNO) to MNO, bank to bank and merchant payments). It is also supporting the digitalization of VSLAs to promote linkages to other financial institutions. It is also working on an educational campaign with TransUnion, the one credit bureau, to help develop new scoring products including an app for end users to use and understand their credit scores. It is also working with Impact 2 Innovation (I2I) from South Africa to develop utilization of data analytics for different financial institutions.

In agriculture, AFR has been supporting new initiatives to expand financing for smallholder farmers into five value chains: dairy, Irish potato, maize, coffee and tea. It is also managing five different pilot projects: 1) in the dairy sector, working with partner financial institutions, especially KCB on product development and 2) working with Heifer International to support enabling a milk collection center cooperative to have improved financial management and record keeping that would enable them to access bank financing; 3) working with KCB to extend its MobiGrow product to farmers, enabling them to receive and make mobile loan payments (with cash in, cash out capabilities through KCB agents); 4) developing a KCB-based voucher platform that enables contract payments to be seen (transparent) by other suppliers (drug shops, transporters, extension services) to enable the bank to make advances to farmers; and 5) supporting Unguka Bank and Mutahama MFA to extend finance to smallholder farmers.

AFR has been looking at expanding finance into the potato value chain, working with KCB and Spark, a Dutch NGO. They expect the process would be similar to their work in dairy, but there have been numerous challenges in the potato value chain including the engagement for the Agro-Processing Trust Corporation (APTC), a military run parastatal brought in by the GOR to intervene in the sector to control fraud, pricing and payments to smallholder farmers. As has happened in other areas, namely inputs, this has created other distortions in the market.

AFR will begin a new leasing program aimed at revitalizing the market for leasing. Banks had engaged in leasing back in the early 2000s after IFC began to develop the sector and promote leasing as a viable alternative financing mechanism starting in 2005. However, leasing never really took off in Rwanda given lack of product knowledge coupled with unclear and unfavorable legal, tax, regulatory and accounting frameworks (issues related to double VAT taxation, difficulty/ delays to repossess/ recover assets,
confusion on accounting treatment and depreciation, all problems experienced in other markets where IFC promoted leasing. Several banks interviewed for the BIA noted past troubles in leasing and their abandonment of the product. AFR’s new program builds upon momentum from 2016 amendments to leasing law by supporting two institutions, I&M Bank and BDF Leasing, with different leasing models to demonstrate to the wider market that leasing has potential in Rwanda. Part of this work will include addressing leasing skills gaps through development and institutionalizing of a certified leasing (Gender/disability) responsive curriculum and lobbying the Central Bank to make it a requirement for any institution providing leasing services to have certified leasing personnel.

Also, AFR has been tasked with looking at agricultural insurance working closely with the national Agricultural Insurance Scheme. Under this initiative, the GOR may provide subsidies to insurance companies as well as some technical assistance. The facility is currently being designed but needs to be built into MINECOFIN’s 2019 budget.

Finally, in mid-June 2018, AFR released a request for proposal to engage a consultancy to address MINECOFIN and NBR’s desire for a de-risking facility for the agricultural sector. The TOR requests bidders to:

- Design the incentivized agriculture risk sharing and financing facility blueprint;
- Provide an estimation of resources that will be required to operationalize incentivized agriculture risk sharing and financing facility with respective budgets and timelines;
- Design the scheme’s architecture (institutional implementation framework), define the roles and responsibilities of each stakeholder to ensure effective delivery of an incentivized agriculture risk sharing and financing facility in Rwanda;
- Provide an implementation work plan and results monitoring framework;
- Work with AFR and MINECOFIN to develop a fundable project proposal.

Proposals were due in early July 2018. Once the facility is in place, Nugriza Nshore will work to mainstream this with its banking partners, depending on the applicability to their needs.

**TradeMark (TMEA)**

TradeMark East Africa and the GOR have signed an MOU extending their partnership to 2023 and beginning TMEA’s second phase of work in the country. Aimed at creating 100,000 jobs, reducing poverty and increasing trade, the US$ 24.5 million program (with contributions from Belgium, the UK and US) will work to reduce Rwanda’s trade deficit and promote broad-based sustainable development through growth hubs. A Growth Hub is a locational economic development program focused on job creation and value addition, achieved by crowding in investments that can demonstrate high returns from increased trade. Under TMEA’s phase two, Rwanda’s pilot Growth Hub will focus on tourism and manufacturing with transport and logistics as enablers. TMEA’s tourism initiatives will focus on diversification of Rwanda’s tourism products (beyond gorillas into birding but also an expansion of MICE) while manufacturing interventions will improve the export capabilities of current and future manufacturing companies with an
aim to reduce operational costs. Finally, TMEA will work to support improved agro-logistics including helping secure $30 million in FDI for a Kigali wholesale market.94

**USAID Private Sector Driven Agricultural Growth (PSDAG)**

PSDAG is a five-year effort funded by USAID/Rwanda as part of the U.S. Government’s Feed the Future initiative. PSDAG works to improve the effectiveness of Rwanda’s agriculture sector by helping the GOR to attract and increase private investment while upgrading agricultural value chains to stimulate private sector growth. PSDAG assists the GOR in improving its institutional framework for investment promotion to stimulate private sector growth and transform the Rwandan agricultural sector. It works to facilitate increased private sector investment by upgrading value chains, thereby also increasing incomes of smallholder farmers by improving their access to markets and inputs for production and finance, using a partnership approach that is adaptive, scalable, sustainable and focused on market-driven outcomes. A main goal of the project is to increase smallholder incomes by promoting private sector investments that contribute to the GOR Vision 2020 aim of bringing agriculture into a market-oriented, competitive and high-value sector.

PSDAG has served as a quasi-equity or blended finance fund providing funds to agribusiness SMEs for capital investments to upgrade technology and equipment. Many firms were in early stages of development and had limited collateral. Nonetheless, PSDAG required proof of leverage/co-financing from a third party on all grants made. Over the course of four years it made more than 51 grants to SMEs, 110 cooperatives and 5 NGOs, all co-financed, and in many instances provided BDS support through Inkomoko, Karisimbi Partners and OCA which included assistance with pitch books to enable them to raise private investment.

PSDAG has also worked closely with the RDB through an embedded adviser to promote and do the analyses of seven subsectors including coffee roasting and packaging, meat processing, high value horticulture, specialty teas, floriculture, fisheries, and dairy. RDB has also indicated great interest in agro-logistics (e.g., cold storage) and packaging.

**USAID Hinga Weze**

The Feed the Future Rwanda Hinga Weze Activity is a five-year, $32.6 million USAID-funded project implemented by CNFA that aims to sustainably increase smallholder farmers’ income, improve the nutritional status of women and children, and increase the resilience of Rwanda’s agricultural and food systems to a changing climate. Hinga Weze implements holistic interventions that target the interrelated issues of undernutrition, food insecurity and barriers to agricultural productivity by focusing on the sustainable intensification of Rwandan smallholder farming systems, with an emphasis on climate-smart, nutrition-sensitive approaches. Hinga Weze is utilizing innovative approaches to enhance the production of five value chains: high-iron beans, orange flesh sweet potato (OFSP), Irish potato, maize, and horticulture. By 2022, the project will have benefited over 700,000 smallholder farmers in ten target districts.

In finance, Hinga Weze also works at three levels:

- At the farmer level to expand access to and use of inputs, supporting the buying and selling of inputs on credit through agro-dealers;

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At the farmer group/cooperative level, working with solidarity groups (not savings groups) of 5-10 people to build savings and link them to MFIs or agro-dealers for credit; and

At the transaction level between farmer and buyer, developing loan products with commercial banks (KCB and Equity), MFIs and microfinance banks (Unguka, Urwego and Duterimbere) and SACCOs to access seasonal loans or other SME financing products, such as an inventory discount product it developed with KCB. Similarly, it has worked with aggregators to obtain working capital while it is waiting for clients to pay, such as in the case with AIF.

Nguriza Nshore sees Hinga Weze as a potential source of pipeline. For example, Hinga Weze has been working with Farm Fresh on acquiring a bean processor and Holland Fruit Fair, and a joint venture with a Dutch firm that makes crisps. The project is also working with equipment suppliers and some manufacturers in ten regions which might be appropriate partners to expand leasing to SMEs. Nguriza Nshore will continue to work closely with Hinga Weze, looking for opportunities to enable or provide blended finance to Hinga Weze affiliated companies. USAID is also keen to engage Hinga Weze maize farmers in the AIF supply chain and potential build out contract farming and related financing. This should be further explored by the two projects in quarterly meetings.

**Case Study: Blended Finance in the Tea Sector: a New Local Ownership Model?**

Unilever, in partnership with the Gatsby and Woods Foundations, DFID, and smallholder tea farmers of the Kibeho and Munini districts in southern Rwanda, is embarking on an ambitious greenfield development covering approximately 4,200 hectares for the smallholder tea farmers. This blended investment includes a $30 million contribution from Unilever to develop two large scale tea sites in the sectors as well as a tea processing factory and a $14 million grant from DFID to the Wood Foundation to set up and run the Services Company Outgrowers Nyaruguru (SCON). SCON will be an independently professionally managed entity providing finance, agronomic and production logistics to the smallholders to ensure optimum yields and quality of greenleaf. Proposed ownership will be 51 percent EATI (non-profit owned by Gatsby and Woods Foundations) and 49 percent smallholder farmers. Development started in 2017 with the first planting in October of 2.5 million tea plants. The DFID grant is designed to cover SCON operating costs during the first five years and ongoing operating costs met by EATI and Unilever will be recouped through payments to the services company by farmers once the tea begins to be harvested. Unilever is a major tea company buying around 10 percent of the world’s black tea and has been awarded two greenfield tea concessions in Rwanda.

The GOR is committed to majority-supplied smallholder tea factories as part of their greenfield development strategy. This model will provide an innovative example on how to address a smallholder tea greenfield development, which requires significant upfront capital and a long-term investment horizon. Since 2004, Rwanda has been privatizing the tea sector and between 2008 and 2012, GOR awarded 5 greenfield sites to Rwandan investors. To date, all of these greenfield sites are struggling with low yields, heavy debt, and a lack of any formalized smallholder services offer. The Kibeho/Munini Services Company model will provide a clear demonstration to GOR on the merits of an integrated approach that links a leading global tea company with a professional services company.

The Wood Foundation applies the principles of Venture Philanthropy, investing both money and expertise, to achieve systemic change within its chosen areas, especially smallholder tea farming in Tanzania and Rwanda. The justification for DFID support was to help overcome the market failures and inefficiencies which constrain private sector investment in smallholder greenfield tea. The greenfield model is risky because of the time it takes from the start of the development process to fully productive tea bushes (which can be up to five years). Farmers need to be supported during this period. This includes the teaching of best farming practices, the provision of extension services, and patient capital to ensure continued income whilst the farmers switch crops. It was determined that without UK support the potential for job creation, improved livelihoods and increased exports that tea offers will not be realized.

**Note:** this blended finance scheme has inherent risks derived from tea production as is the structure of this innovative business model with small scale producers. It will require several years before it is able to demonstrate sustainable results and success. Nonetheless, it is an interesting model for blending finance from donor and commercial sources.

**Sources:** The Wood Foundation, NAEB and DFID.

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**East Africa Trade and Investment Hub**

EATI,H is intended to spur inclusive economic growth by promoting an enabling environment for trade and investment and increasing East African trade and investment, particularly to and from the United States. The project builds upon prior investments to increase regional trade competitiveness and reduce poverty in East Africa. As part of its mandate, EATI,H engages transaction advisory firms including BiD Network, CrossBoundary and OCA on
a pay-for-results basis to help achieve aggressive investment targets. EATIH has developed a pipeline of transactions, assisted with opportunity validation, due diligence, financial modelling, fund raising, transaction structuring, neutral intermediation, and investment implementation strategy. During its first three years, EATIH closed $155 million in transactions with firms in Ethiopia, Kenya, Uganda, Tanzania, Madagascar, and Rwanda, including two women-owned firms; the $9 million Rwanda investment is in poultry. In Rwanda EATIH is working with the RSE to support select SMEs to get listed. It is also working with PSDAG and Grofin to support new investments in key sectors and has an MOU with the RDB to undertake some investment profiling. With DAI as the manager of both the EATIH and Nguriza Nshore, our teams are already communicating and collaborating on co-investment opportunities or investment opportunities that EATIH cannot pick up due to the closing of the project in 18 months.

**HortInvest**

HortInvest is a new five-year, €16.2 million project funded by the Dutch Government and managed by SNV in partnership with Agriterra, Holland Greentech, IDH Sustainable Trade Initiative and CDI Wageningen. HortInvest aims to increase farmers’ incomes, grow the relative contribution of the horticultural sector to the regional economy in northwest Rwanda, and improve the food and nutrition security of at least 44,000 farmer households. HortInvest will help realize the Rwandan National Horticulture Policy to create fast economic growth and reduce poverty and malnutrition by facilitating 30 SME to increase their annual turnover, supporting 10 business cases for funding; and strengthening the governance of 300 cooperatives. The project covers six target districts in northwest Rwanda.

HortInvest will focus on supporting horticulture growers, their producer organizations and private sector partners. The project will provide support and training on Good Agricultural Practices and IPM, value addition, market demand, services and inclusive growth of specific horticultural value chains (fruits, incl. banana and vegetables). Production and supply improvements for both domestic and regional fresh produce markets as well as the more high-value export markets will be covered. The project is expected to leverage an additional € 5.0 million of co-funding from private sector partners. Nguriza Nshore will work with HortInvest to assess the possibility of supporting its SME beneficiaries in accessing finance and investment, using quarterly meetings to evaluate and assess current opportunities.

**DFID Improving Market Systems for Agriculture in Rwanda (IMSAR)**

The DFID-funded IMSAR project provides expertise and consulting services to innovative business models and seeks to shift agricultural market dynamics in a way that supports triple bottom line (economic, social and environmental) improvements in firm and market performance. Instead of working at the value chain level, IMSAR takes a markets approach to address resolve constraints cross-sectorally. Although still in the inception phase, it is likely the project will focus on inputs, aggregation, finance, and processing and addressing these constraints in a couple high potential value chains. To date the project is reviewing closely horticulture, dairy, tea, coffee and staple crops. A major focus of the project will be on enabling affordable finance for MSMEs, complemented by debt and/or equity investments provided to select companies through AgDevCo.

One current investment being discussed is a horticulture wholesale market. An initial feasibility study has been done that was positively received by DFID and the GOR. Political commitment for this is strong and space for it in Kigali has been identified. About US$ 20 million is needed to start the project but additional commercial capital will need to be raised and there may be a role for Nguriza Nshore to engage.

**Mastercard Foundation Hanga Ahazaza**

The MasterCard Foundation is just starting a new $50 million project, Hanga Ahazaza (“Creating the Future”) in Rwanda to expand the tourism sector, creating more than 30,000 new jobs for young people and expanding the growth and competitiveness of SMEs that work in the tourism and hospitality sector.
A new approach for the Foundation, the project will be directly managed by Foundation staff in coordination with the GOR and nine partner organizations. MasterCard Foundation will work with the International Hospitality Management School, Vatel, Cornell SC Johnson College of Business, eCornell and GIZ on the training and capacity building side to provide young people (with GIZ focused on the vocational training side of things), with financial service providers I&M Bank and NBFIs/BDS providers/transaction advisers, Grofin and Inkomoko, and with Harambe, Dalberg and a third tourism partner on the consulting side, focusing on the development of tourism master plans and product development, youth employment accelerators and job placement and strategy and learning. Most of the investment will focus on technical assistance with Grofin and I&M responsible for direct lending to tourism related businesses up to a maximum of $250,000. Average loan sizes, however, are expected to be closer to $100,000. Mastercard Foundation is interested to explore opportunities for partnerships with Nguriza Nshore that link to tourism, including potentially in transport, agribusinesses that support other hospitality businesses or energy.
RECOMMENDATIONS FOR NGURIZA NSHORE ENGAGEMENT

The goal of Nguriza Nshore is to increase job creation in the rural economy by facilitating transformational investment and finance that can drive growth of non-farm agribusinesses and SMEs. As a result, Nguriza Nshore’s strategy must be opportunistic and flexible, and informed by government, financial sector, investment ecosystem, private sector and donor partnerships that will enable the project to engage in right set of opportunities to which we can bring technical assistance, financing for pilots, de-risking and other financial instruments. The BIA enabled us to open the first doors, make introductions, discuss partnership and ultimately, provided us a more intimate look at the opportunities that align with Nguriza Nshore mandate. There are several jumping off points for Nguriza Nshore’s initial engagement.

In this section, we provide a fitness test by which to evaluate current and future opportunities as well as provide recommendations for project engagement in the project’s two core component areas, Component 1: Expanding the Capacity of Financial Institutions to Lend to SMEs and Component 2: Increasing Private and Commercial Investment in Agribusiness, where we recommend engagement.

Fitness Test

Because Nguriza Nshore is driven by aggressive targets, particularly around debt and investment financing for off-farm SMEs and agribusinesses and job creation potential, we have developed a fitness test that would allow us to score opportunities based on a set of criteria that aligns with the project’s targets and an evaluation of value for money to maximize outcomes for USAID investment. The fitness test will enable the project to determine whether project investment in an opportunity supports our theory of change (see sidebar) and Nguriza Nshore targets.

The fitness test is made up of 7 criteria by which Nguriza Nshore management will evaluate opportunities. Each criterion aligns with USAID development objectives and Nguriza Nshore expected resulted. Each criterion will be scored on a scale of 0–5 with a maximum potential composite score of 100 percent, and a minimum threshold of 75 percent. Only opportunities scoring 75 percent or above will qualify for project support.

These criteria include:

- **Sector Fit.** Is the opportunity focused on financing off-farm agribusiness SMEs, particularly in value addition, storage, logistics, transport and export, or other SME sectors of priority to USAID and the GOR? Yes/no filter.

- **Investibility.** Does the initial screen suggest that the opportunity is attractive for private, bank/NBFI or other blended finance investment? Will the opportunity generate revenue within a specific period of time, have positive cash flow, be profitable enough to repay a loan or generate a positive return on investment?

- **Impact/Feasibility.** Is there a likelihood of success, the potential for transformative developmental impact in terms of job creation (on direct and indirect beneficiaries) and increased

Nguriza Nshore Theory of Change and Targets

**IF** financial institutions have expanded capability and favorable incentives to lend to SMEs, **AND** access to private and commercial investment for SME agribusinesses is unlocked through value-creating partnerships, **AND** policy constraints to accessing finance, investment, and entrepreneurship development are addressed **THEN** Rwanda’s agribusiness sector will have higher value-added production, profitability, and accelerated job creation.

**Targets:**

- $15 million in new loans of which $5.9 million is leveraged using de-risking instruments
- At least 198 financial institutions extend loans to SMEs
- $30 million in new investment for SMEs
- 20% over baseline for SME annual sales
- 500 firms receiving technical assistance for improving business performance
- At least 30,000 new job created
profits by companies obtaining finance or investment? Evaluation of the opportunity should include political economy insights into key agricultural value chain, energy, and finance stakeholders.

- **Resources versus Results.** Are the funds and/or staff time allocated to this opportunity sufficient to unlock or leverage additional capital for SMEs? Will the results of Nguriza Nshore’s investment result in significant contributions to project targets?

- **Gender, Youth, and Social Inclusion** (crosscutting requirement). Does the opportunity empower female stakeholders, youth, and other vulnerable populations as entrepreneurs, employees, or individuals/groups benefitting from investments (e.g., community/social infrastructure, electricity)?

- **Environmental Best Practice** (crosscutting requirement). Does the opportunity optimize climate-smart agriculture and ensure compliance with U.S. Government environmental procedures? In addition to standard USAID compliance, will the opportunity align with other Environmental, Social and Governance criteria recognized in the investment community?

- **Additionality.** Will investment mobilized contribute to regional trade, exports, SME growth, and development impacts generated? Does the opportunity offer the potential for scale and crowding in or catalyzing additional investments? Does the opportunity expand the potential for on-lending to SMEs by new financial institution partners?

We recommend that Nguriza Nshore weigh each criterion equally but adjust over time based on learning and a review of data generated by the Monitoring, Evaluation and Learning Plan (MELP).

**Recommendations Component 1: Expanding the Capacity of Financial Institutions to Lend to SMEs**

Component 1 aims to expand lending to SMEs, leveraging at minimum $15 million in additional financing for SMEs of which $6.1 million is leveraged using de-risking instruments.

1. **Technical Assistance to Partner Banks.** As a start, Nguriza Nshore should select at least two or more partner banks with whom the project can work to expand lending to SMEs and agribusiness. Partnerships should be demand-driven. Nguriza Nshore should select partner banks based on their ongoing commitment to SME and agribusiness lending and be prepared to develop a tailored plan to provide longer term technical assistance to them to: 1) develop an SME and/or agribusiness strategy; 2) support the development of new products including asset-backed products such as inventory finance/factoring, medium and longer term loans and leasing; 3) operationalize the strategy including department restructuring, staff training and development, and 4) develop a commercial outreach to drive uptake of the new products. Promising bank partners for a start include: KCB Rwanda, I&M Bank, BK and Bank of Africa. KCB Rwanda and I&M are gaining momentum and may need less support. Bank of Africa is growing rapidly and is ambitiously pursuing new growth markets. This approach has been successfully deployed in other African financial markets to create a demonstration effect, more competitive banking environment and better/cheaper products for SMEs. In DAI’s experience, banks pay close attention to their competitors and will seek out Nguriza Nshore for help once a competitor has demonstrated its competitive edge in a new area of lending. Our experience has shown that this competition will bring down interest rates and other related lending costs.

2. **Technical Assistance to other Non-Bank Financial Institutions.** While Nguriza Nshore’s focus in increasing loans should come from the banking sector which is well capitalized, it should
also consider extending TA and other support to other NBFIs including MFIs, SACCOs and specialized alternative finance providers like BeneFactors and Kountable. MFIs and SACCOs will provide smaller loans that the banks are unwilling/unable to make and reach additional small businesses. They are also the channel to reach more women and youth owned businesses. For the alternative finance providers, the planned passage of the “shadow banking law” offers the potential to expand trade finance and factoring (see Component 3 recommendations below). Both BeneFactors and Kountable offer potential products that could be scaled up, particularly for SMEs in need of working capital. BeneFactors, itself a start-up, is in need of loan capital and is seeking equity investment. The company is also currently exploring angel investment through Nguriza Nshore partner, BiD Network. Depending on the outcome, the project may also explore other avenues to help BeneFactors obtain capital for on-lending, including possibly through a DCA bond guarantee or convertible hybrid guarantee. These guarantee options are being discussed with the Office of Development Credit and the work has already been included in Nguriza Nshore’s first year work plan.

3. **Assessment of BDF’s role and impact as a “market maker” for agriculture finance**, specifically agribusinesses. In line with recommendations made by the World Bank, Nguriza Nshore should support a deeper review of the BDF and its role in financing and de-risking lending for agribusiness. This assessment would also look closely at its early stage seed capital and growth investments in 26 agribusinesses to evaluate its impact, as well as look at the longer-term implications of BDF provision of subsidized investment capital. Based on the assessment, Nguriza Nshore would work with BDF to develop a work plan for further collaboration.

4. **Improvement of Existing Guarantee Mechanisms and Developing New De-risking Instruments**. Over the long term, Nguriza Nshore would like to work with the BDF and explore how to make their guarantee program more effective to unlock capital for SMEs. Several banks interviewed as part of the BIA expressed their frustrations with the guarantee program which remains underutilized. As a starting point, Nguriza Nshore should undertake an assessment of the guarantee program and work with BDF on a turnaround plan. Nguriza Nshore is also discussing options with the USAID Office of Development Credit about how to deploy its tools and know-how. There may be opportunities to utilize a convertible hybrid guarantee alongside equity investments (see component 2).

5. **Expansion of Leasing Finance**. Alongside its work with partner banks and other financial institutions, Nguriza Nshore should help the financial institutions to develop their leasing strategy, products and roll out. Nguriza Nshore can work alongside AFR to expand this product to a larger segment of the market, perhaps taking a lead role by engaging with big equipment providers such as John Deere to negotiate and design the product.

**Component 2: Increasing Private and Commercial Investment in Agribusiness.**

1. **Pipeline Development**. Currently, Nguriza Nshore through its partner, BiD Network, is building a pipeline of SMEs for investment and is working to close new investments. It already closed its first investment of $500,000 to Get It, a fresh foods and vegetable company that sells to hotels and restaurants. As part of its subcontract, BiD Network has the first right of refusal on any deals that the project passes to it. After that, Nguriza Nshore has the right to shop it around to other potential investors or transaction advisory firms. The BIA uncovered several sources for investment pipeline. These include: 1) a prioritized list of PSDAG’s grantees that to date have benefited from targeted blended finance from the project but may be ready for other forms of
finance and investment; 2) other USAID partners, and 3) BDF’s quasi-equity deals\(^95\) (see more below); Nguriza Nshore will continue to network with a host of private sector and government partners, including the newly created Rwanda Innovation Fund, to mine their business lists for credible investments. It is also talking with local consulting and investment advisory firms like Karisimbi Partners, OCA and Inkomoko about the deals they can bring to the program and the project can support deal flow. The project should continue to refine the process, adapting it based on lessons learned.

2. **Investment Readiness.** Nguriza Nshore should consider supporting BDF to help with investment readiness of firms it has already financed (debt, quasi-equity). This could be done by contracting a transaction advisory firm through the Catalytic Growth Fund (CGF), Nguriza Nshore’s subcontracts and grants facility, to help firms to become investment ready and attract finance. It might also include other discreet work to help BDF negotiate bulk purchases to reduce the price of leased equipment within its leasing program. Note: this BIA did not assess the BDF performance or end user (banks and SMEs) perspective on instruments, SMEs). Such an assessment may be worthwhile to determine opportunities for improvements and innovation.

3. **Expansion of SME Access to Finance from the Capital Markets.** Nguriza Nshore also could leverage EATIH’s work with the RSE to SMEs interested to get listed. EATIH and RSE recently reviewed an initial list of more than ten companies looking to get listed. EATIH intends to work with two to three firms to help them make the operational changes and prepare to get listed, but does not have sufficient time and resources to work with others before the project ends in 2019. Nguriza Nshore can work with EATIH and the RSE to select others as well as to help RSE determine how it can reach its 100 SME target. This may involve a partnership with a CMA licensed investment adviser such as Baraka, SBG Securities, CDH, Africa Alliance and BK Securities which have indicated interest.

4. **SME Export Certification Support through the RDB.** Through the strategic use of the CGF, Nguriza Nshore can work with the RDB to help local firms meet certification requirements such as hazard analysis and critical control points (HACCP) within the food industry to meet international hotel and export standards such as S-Mark which enables products to be sold throughout the EU.

5. **Opportunistic Support to Private and Donor-funded Blended Finance Initiatives.** Nguriza Nshore should also look for opportunities to leverage large anchor investments in key sectors/value chains and their linkages to SMEs. This is important because of the SMEs that these investments pull into the value chain and the potential there is for new firms and job creation. While these firms have a need for finance and investment, finance is not there only constraint. There is a need to identify appropriate BDS for these firms, potentially through the engagement of other transaction advisers. Examples of these anchor investments in order of potential engagement/priority are:
   a. Unilever/Wood Foundation work in the tea sector
   b. Kigali wholesale market (with DFID IMSAR, and TradeMark)
   c. Africa Improved Foods (with a host of development actors, DFIs and private firms)
   d. MICE and tourism (building upon the new International hotels and Kigali convention center, but also MasterCard Foundation’s investment in the tourism sector)
   e. Cold chain investments (with HortInvest and TradeMark).

\(^95\) The BIA team did not in any way evaluate BDF’s quasi-equity deals and thus, cannot speak to the quality of these firms or their potential for investment.
In the future, there may be others that Nguriza Nshore would take a leading role. Nguriza Nshore should also be open to emerging opportunities presented by USAID.

**Component 3: Strengthen the Enabling Environment for the Expansion of SME Agribusinesses and Support Firms**

1. **Support the Adoption of a Legal Framework for Asset-based Financing.** Nguriza Nshore should work with the BNR, AFR and others to support the adoption of a new legal framework that will address asset-backed financing, factoring, contract and cash flow lending, all of which would have different collateral, classification and provisioning requirements. The draft law, while helping to avoid over-regulation, protect consumers and avoid systemic risks, will also expand new options for finance for SMEs.
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ANNEX 1: LIST OF INTERVIEWS AND CONTACTS

Government of Rwanda Ministries and Agencies
Winifred Ngangure Kabega, Head of Investment Promotion and Facilitation Department, Rwanda Development Board

Kevin Kavugizo Shyamba, Director, Microfinance Institutions Supervision, National Bank of Rwanda

Innocent Bulindi, Chief Executive Officer, Business Development Fund (BDF)

Livingstone Nkuusi, Branches Coordinator, BDF

Noella Murigo, Manager, Market Supervision and Inspection, Capital Markets Authority (CMA)

Carine Twiringiyimana, Financial Analysis, CMA

Nanette Bamunyana, Legal and Compliance, CMA

Jean Bosco Sebabi, Deputy Director General Fund Management, Rwanda Social Security Board

Kampeta Pitchette, Director General, National Industrial Research and Development Agency (NIRDA)

Financial Institutions and Representative Bodies
Jacky Mugwaneza, Executive Secretary, Rwanda Banker’s Association (RBA)

Vincent Bayingana, Executive Assistant, RBA

Eric Rutabana, Chief Executive Officer, Banque Rwandaise de Developpment (BRD)

Regina Mukamusinga, BRD

Lydie Nyombayire Munorunkwere, Head of Institutional Banking, Banque Populaire Rwanda (BPR)

Gilbert Rukundo, Head of Business Banking, BPR

Faustin Byishimo, Executive Director, I&M Bank

Callixte Nyilindekwe, Head of Business Banking, I&M Bank

Godfrey Byaruhanga, Relationship Manager, Business Banking, I&M Bank

Desire Rumanyika, Chief Operating Officer, Bank of Kigali

Emmanuel Bizimungu, Business Branch Manager, Bank of Kigali

Jean Claude Kabananiye, Senior Manager, SME Banking, Kenya Commercial Bank (KCB) Rwanda

Alexis Mpirwa, KCB Rwanda

Odile Mukayiranga, Agribusiness Manager, KCB Rwanda

Cyusa Mucyowirababa Leandre, Country Director Rwanda and ICT Specialist, Kountable
Eugene Mulindahabi, Head of Credit, Commercial Bank of Africa

Pacifique Nkongoli, Access Bank

Joas Jerry Ndikumona, AB Bank

Rosine Ushizimpumu, Head SME Banking Group, Guaranty Trust Bank

Emmanuel Ejizu Nnamaka, Executive Director, Guaranty Trust Bank

Modeste Niyihaba, EcoBank

Alice Uwineza, Head of Credit, Bank of Africa

Abderrahmane Belbachir, Managing Director, Bank of Africa

Jean Paul Muramira, Head of Sales and Digital, Bank of Africa

Songa Rwamugire, Head of Corporate Banking, Cogebankue

Jesse Ratichek, Chief Business Officer and Deputy CEO, Urwego Bank

Jules Mukiza, Urwego Bank

Olivia Zank, CEO and Founder, BeneFactors

Celestine Rwabukamba, CEO, Rwanda Stock Exchange (RSE)

Alice Ilibagiza, Head, Finance and Administration, RSE

**Private Sector Companies**

Joshua Rugema, Regional Director, East Africa Exchange

Frank Kadugara, Managing Director, Movement Supply and Service Ltd.

Donatille Nibagwire, Managing Director, Floris

Anicet Rwama, MoAgri Co Ltd.

Desire Nzayisenga, Muhanga FPI

Jean Claude Shirimpunu, Rwanda Pig Farmers Association

Alexis Ndayambale, Vision Agribusiness Farm Ltd.

Jean Baptista Twagiriwana, Provident IAB Ag Cooperative

John Musemakweli, Executive Director, Rwanda National Dairy Platform
Development Finance Institutions and Donor Funded Projects
Randy Smith, Rural Enterprise Development and Entrepreneurship Specialist, USAID Rwanda
Clementine Mukuka, USAID
Zephanie Niyonkuru, Rwanda Representative, East Africa Trade and Investment Hub, DAI
Hamidou Sortgo, Senior Private Sector Specialist, T&C Country Lead Rwanda and Burundi, International Finance Corporation (IFC)
Armin Lalui, Rwanda Investment Climate Reform Program, Program Coordination, World Bank
Ignace Rusenga Mihigo Bacyaha, Country Resident Representative for Rwanda and Burundi, IFC
Kirsten Pfeiffer, Deputy Chief of Party, USAID Private Sector Development for Agriculture (PSDAg) Project, RTI
Anmar Kawash, Coordinator Farm to Market Alliance, Smallholder Farmer Unit, World Food Programme
Livingstone Nshemereirwe, Head of Agriculture and Rural Finance, Access to Finance Rwanda
Daniel Gies, Chief of Party, USAID Hinga Weze Project, CNFA
Olivier Habimana, Director of Business, Market and Finance Department, USAID Hinga Weze Project, CNFA
Rica Rwigamba, Program Manager, Mastercard Foundation, Hanga Ahazaza Project
Stefan Engels, Project Manager HortInvest & Sector Leader Agriculture

Consultants and Other Key Informants
Dr. Kato Kimbugwe, Dynamic Analysis and Wood Foundation consultant
Ben Christensen, former board member, BPR and Rabobank Adviser
Magdalena Koneva, Adviser to MINECOFIN, Technical Specialist on Aid Effectiveness and Resource Mobilization, UNDP Rwanda
Judith Aguga Acon, Adviser to the DFID IMSAR Project

Private Sector Networks, Business Development Service Providers, Consulting Firms and Transaction Advisers
CJ Fonzi, Associate Partner and Rwanda Director, Dalberg Advisers
Matt Gantz, Senior Manager, Karisimbi Partners
Chase Carroll, Consultant, Karisimbi Partners
Sara Leedom, Chief Operating Officer, Inkomoko
Sajji Ryakunze, CEO, AgriProFocus
Thacie Munyamahame, AgriProFocus
Geoffrey Kamanzi, Director Trade and Business Development, Private Sector Federation
Yan Kwizera, CEO, MutiCapital
Gert van Veldhuisen, CEO, BiD Network
Christian Bugabo, Investment Executive, Grofin
Jean-Claude Mutajogire, Country Manager, Business Partners International