

**REPUBLIC OF RWANDA**



**MIGEPROF**



## **Women and Youth Access to Finance Program**

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## **Introduction**

Since 2000, Rwanda has made tremendous progress in achieving a number of development objectives including building strong institutions, maintaining macroeconomic stability, and decreasing poverty through increasing access to basic services. The Rwandan Government aspires to build on this trajectory and increase financial penetration and inclusion as a key vehicle to sustained economic growth. Insufficient access to finance, particularly with SMEs has been a challenge. Rwanda's financial inclusion is still shallow with 52% of the population lacking access to formal financial services (FinScope Survey 2008). The "Women and Youth Access to Finance Program" has been prepared with an objective to contribute in addressing this challenge.

Despite Rwanda experiencing its fastest growth in the recent past (2000 – 2010), statistics indicate that women and youth who comprise approximately 70% of the population are not sharing equitably in this success. They are significantly underserved in the financial sector with an estimated 12% of total credit to women although they are key contributors to private enterprise. Lending to women from MFIs and SACCOs comprises a portfolio of 22% and 23% respectively even with the 2011 Establishment Census showing that 26% enterprises are women led with the exclusion of their participation in agriculture. Youth are quite equally challenged. Young people are underemployed, have limited access to finance and consequently cannot invest in productive enterprises. Unfortunately the available financial sector data does not indicate the amount of lending to youth.

To address these challenges, MIGEPROF and MYICT in collaboration with the Business Development Fund (BDF) and the Rwanda Cooperative Agency (RCA) have sketched out a program that has two elements; 1. Capacity building and training with specific emphasis to financial literacy (to address the non-financial barriers) and 2. Financial access and credit enhancement programs (to address the financial barriers). The program will be administered by BDF and executed through lending Institutions, Business Development Centers and other willing partners who have a solid presence at the sector levels. The program components include credit guarantees, microloans, matching grants, quasi equity participation and business advisory services.

The limitation of access to finance for women and youth is largely skewed towards non-financial barriers. These include conditions in the broader business environment like limited management capacity, lack of collaterals, perception of lending institutions towards women and youth and limited incentives to reach out to more women and young people. Significant attention and resources will be drawn towards capacity building within the program.

Through this program, MIGEPROF and MYICT aim to establish a sound, enabling financial environment for women and youth and encourage lending institutions to provide credit to women and youth who would otherwise not be fully qualified for approval under the normal credit underwriting guidelines. These efforts are expected to expand the ability of women and young entrepreneurs to pursue economic opportunities, invest additional capital, hire more employees and grow their businesses. Of particular focus is to facilitate financial inclusion and access to financial facilities for that underserved segment of Rwandan society.

## **Linkage to GoR Programs**

There has been a cautious linkage of this program to the GoR programs i.e. EDPRS II, GoR 7 year's program and Vision 2020. The GoR through the EDPRS II program has shifted its focus towards Private Sector development and identified SME financing as one of the key priorities for its development path as elaborated under the first flagship; ***Sustainable Growth for Jobs and Exports***. This program fits well with the priority areas of widening and strengthening the financial sector, and accelerating growth and poverty reduction.

Further to this, the program is directly connected to the Financial Sector Development Program (FSDP). The FSDP has set an aggressive target to ensure 80% of the population has access to formal finance by 2017 and this program will play a significant role towards achieving this target of financial inclusion.

At this point of time, it is not possible to detail the contribution of the program to the annual GDP growth rate or other EDPRS indicators. However, it is estimated that the program could create nearly 125,000 jobs over a five year period which could in-turn have far reaching positive impacts on the livelihoods of many households. The program also projects to leverage the existing guarantee resources and stimulate private sector credit worth Rwf 62 Billion over 2012 – 2016.

This strategy is linked to the 6th and the 7th Programs of the 'Government 7 Years Program' concerning youth development and gender and women equality. The strategy will help Youth and women to create cooperative and new jobs. It will also increase the number of women accessing to loan as the government plans to have 50% of borrowers in SACCOs and MIFs to be women in seven years.

In the same context, this program will highly contribute to the objective of having Domestic Credit to Private Sector to be equal to 27% of GDP by 2017 and Gross National Savings to reach 20% of GDP by 2020.

## **Geographical focus**

While we plan to implement the program throughout the country, there is a deliberate intention to concentrate a significant portion of the program resources on serving districts that were highlighted by the "Households Living Conditions Survey" (EICV3) to have the highest poverty levels. These districts are Karongi, Ruhango, Nyamasheke, Nyamagabe, Nyaruguru and Gisagara. The program commits to accelerate access to its facilities in these areas through planned incentives and interventions aimed at motivating private investment.

Gakenke being a priority district for MIGEPROF will also have a special attention in this program. The pilot phase of the SACCO Refinancing and Women and Youth Grant facility programs will be conducted in these districts.

## **Target Population**

Through this program, MIGEPROF and MYICT aim to reach and improve opportunities for a target segment that are:

- Women
- Young people aged 18 – 35
- Vulnerable groups; Genocide survivors, People living with disabilities, Veterans
- from low-income rural and urban households
- who are economically active, but underserved
- and who face challenges to accessing adequate skills, finance and economic opportunities

## **Programs to improve women and youth's access to financing**

### **A) Advisory, counseling, capacity building and training programs**

#### **The message**

- ▶ *Are you thinking about starting, growing or expanding your project?*
- ▶ *Do you need a business plan to clearly outline your project?*
- ▶ *Do you need to know the business laws, regulations, and tax regime?*
- ▶ *What kind of funding do you need for your business? Loans, grants, Equity.*
- ▶ *Do you need assistance to run your business?*

#### ***1) Advisory and counseling services***

Business guidance and support to women and youth entrepreneurs is crucial to increasing their chances for long-term success. BDF currently provides business guidance in form of advisory services directly by BDF staff, and through selected individual consultants and Business Development centers (BDCs) in the districts. These services will also be channeled through other willing players that demonstrate a strong presence in the districts i.e. Youth centers, and Civil Society Organizations. These institutions provide the best option to decentralize the program across the country and relations with them will be governed by agreements spelling out the partnership guidelines and a working framework to ensure smooth and effective delivery of services. BDF in collaboration with various stakeholders (RCA, PSF, WDA, RDB) but in particular the national gender and youth machinery (National Women's and National Youth Council , Gender Monitoring Office, MIGEPROF, MYICT) will participate in the identification of women and youth beneficiaries for these programs.

Through this network, BDF will provide expert insight and guidance to women and youth on how to start, manage and finance their businesses. Whether it is to write a business plan, how to market, how to adopt technology for business benefits, about tax, legal and regulatory obligations, BDF provides advice. To help women and youth to better manage their businesses, BDF offers guidance about running a business. This includes appraising performance of a business with an aim to make priority shifts, taking the business global, using technology to improve efficiencies, entering into a

partnership, mergers and acquisitions, and business restructuring. BDF also provides expert advice and guidance on how a business can raise capital and advice on its financing options. BDF is strategically positioned to negotiate attractive loan packages with lending institutions because of their knowledge and strong working relationships.

## ***II) Capacity building and training – Financial Literacy***

### **The message**

- ▶ ***Financial awareness and frequently asked questions***
- ▶ ***The successful money management process. Money management behavior and attitudes***
- ▶ ***Recording and book keeping skills***
- ▶ ***Credit worthiness and rating in society***
- ▶ ***Determining how much money to start with and how much debt is required***
- ▶ ***Understanding the cost of credit***
- ▶ ***Developing a culture of savings***

In collaboration with BNR and MINECOFIN that are developing a National Financial Education Strategy and framework, BDF will participate and provide capacity building and training programs in financial literacy for women and youth entrepreneurs. Implementation of the financial literacy program will be channeled through different players involved in financial education through to sector level.

BDF will also build capacity of the lending institutions (Banks, MFIs and SACCOs) on how to successfully target and better serve women and youth entrepreneurs. The objective is training combined with expanded access to finance. The program will aim at streamlining credit processes, making easy the loan application process, developing easy to use and acceptable business plan templates, and standardizing product offering in the lending institutions in an effort to embrace more women and youth.

As the BDCs and other players will provide an avenue through which BDF will deliver these programs, it is important their capabilities are up scaled. Capacity building for these service providers will be considered. It will entail developing standardized services and content across the BDCs, providing incentive pay structures, monitoring and reporting structures and developing BDF capacity as a tutor and mentor for the BDCs.

BDF in collaboration with various stakeholders (RCA, PSF, WDA, RDB) but in particular the national gender machinery (National Women's and National Youth Council, Gender Monitoring Office, MIGEPROF, MYICT) will participate in the identification of women and youth beneficiaries for these programs. They will likewise initiate and take a lead in other programs such as entrepreneurship to facilitate the access to finance for the target groups.

MIGEPROF and MYICT in collaboration with the Financial Sector Education working group will spearhead resource mobilization for the capacity building and training activities.

## **B) Financial Access and credit enhancement Programs**

BDF provides its financial access programs, i.e. the credit guarantees, microloans, matching grants and refinancing facilities through the lending institutions (banks, MFIs and SACCOs). Participation

agreements that govern the relationships between BDF and the institutions are signed in order for their clients to access these facilities.

## **1) Credit Guarantees – Product Profile**

### **The message**

- ▶ ***Do you have a sound business project?***
- ▶ ***Do you need a loan to implement your business project?***
- ▶ ***Have you failed to raise adequate collateral to obtain a loan?***
- ▶ ***BDF's Credit Guarantee is your solution.***

A BDF credit guarantee provides supplementary collateral for the borrower in order to fulfill the lender's required collateral coverage ratio.

The credit Guarantee is a commitment by BDF to reimburse the lender a part of the loan in case of default. Credit Guarantees can significantly increase access to debt financing for women and youth led SMEs where they fail to raise adequate security for a loan.

### **Eligibility**

- All women and youth individuals, cooperatives and companies engaged in any sector of productive investment are eligible to access these guarantees.
- Micro, small and medium enterprises are eligible to access these guarantees
- If a lending institution is willing to lend your project finance but requires additional collateral cover, then you can access a BDF guarantee
- There is no minimum loan size requirement but only maximum loan guarantee cover as detailed below.

### **Types of credit guarantees**

Under a centralized framework, BDF inherited and consolidated different Government guarantee funds and grants to improve their coordination and accelerate utilization. These funds include **1)** the Agriculture Guarantee Funds, **2)** SME Guarantee Funds; **3)** The Retrenched Civil Servants Guarantee Funds **4)** The Women Guarantee Fund and **5)** The Rural Investment Facility II, all of which were previously managed by the National Bank of Rwanda (BNR) apart from The SME Guarantee Funds which was managed by BRD. Subsequently, an integrated fund is now managed by BDF.

BDF further revised the guarantees and altered their key features with an aim to make the facilities more attractive to the lending institutions while targeting women and youth to encourage increased utilization. In this regard BDF has established credit guarantees for fixed asset/ investment finance and working capital finance with a widened range of risk coverage to effectively cater for the women and youth segments.

#### ***a) Guarantees for Fixed Asset/investment loans***

- Fixed assets that comprise of property, plant and equipment include but are not limited to land, buildings, motor vehicles, furniture, fixtures and fittings, machinery and equipment for business purpose. Examples include cottage industries, livestock, refrigerators, and sewing machines.

- BDF provides a 50% - 75% widened range of total risk coverage on fixed asset/investment loans of Loss on a defaulting Loan for women and youth entrepreneurs. The loan for which the cover is applied should be a term loan reimbursable over a period of more than one year. The maturity of the guarantee is limited to 10 years.
- The guaranteed loan amount for fixed asset investments in the agriculture sector is limited to Rwf 500 million.
- The guaranteed amount for all other sectors (non- agriculture) is limited to Rwf 300 million. These include education, health care, manufacturing, leasing, and microfinance.

***b) Guarantees for working capital loans***

- BDF provides a 60% total risk coverage on working capital loans limited to Rwf 5 million for individual women and youth entrepreneurs while it provides 60% total risk cover on working capital loans for women and youth associations limited to Rwf 10 million. The loan for which the cover is applied for should be a loan limited to a maturity of 3 years. The maturity of the guarantee is likewise limited to 3 years.
- BDF also provides a 30% total risk coverage on working capital loans for short term agricultural campaigns limited to Rwf 500 million. The loan for which the cover is applied for should be a loan limited to a maturity of less than 1 year. This is under the agricultural Guarantee fund.
- Working capital guarantees are for those women engaged in productive commerce and trade

***c) Solidarity guarantee***

This is the type of guarantee which will compliment the BDF guarantees on investment and working capital loans to fulfill the residual 25% balance.

- Will be facilitated through women cooperatives as solidarity guarantee where the cooperative will guarantee the remaining percentages not covered by BDF.
- Solidarity groups will be formed for women not in cooperatives. These will help in guaranteeing the portion of loans neither covered by BDF nor by cooperatives.
- Personal guarantee by the women who can afford it will be encouraged. In this case, women with collateral will be sensitized to use it as a guarantee.
- Accumulated deposits will also be encouraged from all women and youth which will later on work as guarantee for the uncovered portion of loans or even work as investment capital in the long run.

***2) SACCO Refinancing - Product Profile***

**The message**

- ▶ ***Do you require a loan from your Umurenge SACCO?***
- ▶ ***Has it approved your loan?***
- ▶ ***Is your Umurenge SACCO short of liquid cash to disburse your loan?***
- ▶ ***BDF's SACCO refinancing program is a solution to this problem.***

As the Umurenge SACCOs take shape and grow, they provide BDF with the best option for women and youth to access its facilities. The extensive network of Umurenge SACCOs will deepen financial access to the rural women and youth borrowers because of their proximity and convenience to the critical masses and geographical outreach. As of end February 2012, women accounted for 38% membership in Umurenge SACCOs countrywide with a loan portfolio of 23%.

Because of the limited capitalization and deposits of the Umurenge SACCOs, they are constrained to provide highly needed credit to most women and youth entrepreneurs. To address this liquidity shortage in the Umurenge SACCOs, BDF will provide refinancing on a competitive basis for on-lending. BDF will make funds available to specially designated Umurenge SACCOs, with experience in lending as well as appropriate management at a subsidized rate.

The refinancing program will provide incentives to encourage more lending to women and youth projects. For instance when a specific Umurenge SACCO's loan portfolio comprises 30% of loans to women and youth, then it would be eligible for additional refinancing at a set rate.

### **Key features of the proposed SACCO refinancing program**

#### **Eligibility:**

- Umurenge SACCOs and Non- Umurenge SACCOs

#### **Loan amount:**

- Loans will be capped to 80% of a SACCO's net worth

#### **Maturity:**

- Loan terms to a maximum of 5 years with a grace period for the 1<sup>st</sup> year

#### **Interest Rate from BDF to SACCO:**

- BNR discount rate

#### **Women & Youth Incentive:**

- Rate is brought down by 1% if the SACCO portfolio to women and youth is 30% or more

#### **Interest Rate from SACCO to sub-borrower:**

- SACCOs will determine interest rates to sub-borrowers according to their internal policies in order not to distort the market. However BDF recommends that since this is a funded facility at a subsidized rate the SACCOs should apply an unexaggerated interest rate.

### ***3) Women and Youth Investment Facility – Product Profile***

#### **The message**

- ▶ ***Do you need a micro loan to start, grow or expand your business project?***
- ▶ ***Do you need an investment subsidy to reduce the interest cost burden on your business?***
- ▶ ***The Women and Youth Investment Facility is a solution***

In a deliberate effort to increase financial access to marginalized women and youth, MIGEPROF and MYICT are initiating a Women and youth Investment Facility (WYIF) – a grant facility for small women and youth entrepreneurs that will aim to reduce the burden of high interest rates on women and youth entrepreneurs without distorting the market rates or without resorting to subsidize interested rates. To that end, it will be a performance based grant facility that will ensure women and Youth borrowers have a portion of their loans paid for by the program.

The objective of WYIF is “to provide financial incentives through investment cost subsidy to eligible women and Youth entrepreneurs willing to invest in activities with substantial economic benefit”.

The expected effects of the WYIF to the women and youth entrepreneurs will be more access to financing, and a subsidized investment cost in the amount of the WYIF portion of the loan and saved interest payments over time. The effects on the lenders will be reduced risk, access to additional resources and assurance for repayment of portion of the loan.

The WYIF will be mobilized by MIGEPROF and MYICT in collaboration with other development partners. It will be administered by BDF and distributed through all eligible participating financial institutions.

**Key features and operational procedures of the proposed WYIF**

**Eligibility:**

- All women and youth individuals, cooperatives and companies engaged in any sector of productive investment are eligible to access the grant.
- Only Micro, small and medium enterprises are eligible to access the WYIF grant.
- The WYIF is limited to only new loans
- Only loans to a maximum of Rwf 10 million are eligible to benefit from the WYIF grant

**Grant Amount**

- A grant equivalent to 15% of the total loan amount to start the investment activity will be made accessible to women and youth borrowers who develop start-up projects in all eligible productive sectors

**Resource mobilization**

- MIGEPROF has consolidated funds for utilization in this grant program to the tune of Rwf 436,349,747 and with other development partners will collaborate to raise additional resources. These funds were earmarked for different activities however, MIGEPROF has decided to make a priority shift and reallocate them to the grant program as a start-up fund. The funds consolidated are detailed below:

<b>Source</b>	<b>Location</b>	<b>Amount</b>
Women Guarantee Fund	BDF	122,000,000
Women Credit Funds	BPR	258,620,372
UCAPEC Capacity Building Fund	MIGEPROF	55,729,375
<b>Total</b>		<b>436,349,747</b>

**Operational Procedures**

- BDF will deposit in an interest bearing account opened by the lending bank the total amount of the grant as soon as the lender has approved the loan which will effectively reduce the loan amount
- The financial institution will extend the full loan to the borrower

- Once the amount of the loan paid back by the borrower has reached 85%, the lender will offset the outstanding 15% loan amount with the 15% grant facility.
- The borrower is obliged to repay the loan to a maximum of 85% upon which she will be given a notification that the 15% balance has been repaid by MIGEPROF and MYICT
- In case the borrower defaults and is in arrears for more than six months, the grant facility will be cancelled and the loan beneficiary will have to pay back the entire grant amount. The lender will then transfer the grant portion and the associated interests earned during the loan period back to BDF

#### **4) Microloans - Product Profile**

##### **The message**

- ▶ ***Are you located in a rural area?***
- ▶ ***Do you want to start an off-farm rural business?***
- ▶ ***You can access financing from the PPPMER Program in BPR***

BDF is currently running a microloan program in collaboration with MINICOM under the “Project for Promotion of Rural Small and Micro Enterprises” (PPPMER). PPPMER is an investment program that provides micro and small loans to rural small business concerns engaged in off-farm activities. BDF has provided wholesale loans to BPR and Duterimbere MFI for on-lending to final beneficiaries. This program is open to eligible women and youth led initiatives. We encourage women and youth entrepreneurs to access these facilities. MINICOM in collaboration with other stakeholders continues to spearhead resource mobilization for this microloan program.

The program has two elements that provide a blend of relevant training with specific emphasis to skills and financial assistance holistically so that women and youth can start up new businesses.

##### **Key features and operational procedures of the PPPMER program**

##### **Eligibility:**

- Rural women and youth
- New investments in off-farm activities
- Viable projects approved by a rural Credit Analysis and Evaluation Committee (CEAC)
- CEACs are tasked to pre-screen loan applications before transmission to the bank, sensitize rural micro small enterprises about financial services and products, and help with recovery and follow up.

##### **Eligible Projects:**

Small traders in commerce, tailoring, market vendors, knitting, carpentry, sawmills, tile works, pottery, maintenance and repair services, bakeries, restaurants, slaughter houses and butcheries, manufacturing, hair salons, shoemakers, masonry and any other viable rural off-farm activities.

##### **Loan Amount and maturity:**

- The loan amount and maturity will be determined by the lender
- The borrower is obliged to repay the whole loan amount both principal and interests.

##### **Interest Rate:**

- The interest rate to beneficiaries is set at 11% per annum



## **Implementation**

MIGEPROF and MYICT will spearhead the implementation of this program. A national steering committee with clear terms of reference will be set up to coordinate and follow through on the implementation of all activities outlined. MINICOM, MINECOFIN, MINALOC, BNR, GMO, NWC, NYC, WDA, RDB and PSF will participate in the implementation of this program.

## **Role of partner institutions**

### **a) MIGEPROF and MYICT Role:**

- Coordination of all activities towards women and youth mobilization and sensitization;
- Organizing the women and youth into cooperatives and clusters;
- Mobilization of resources in collaboration with development partners for financing this program;
- Training women in entrepreneurship and to build their capacity of loan utilization;
- Monitoring and evaluation of the performance of this program and to make interventions where necessary.
- Sensitize lending institutions to embrace alternative collaterals with specific focus on solidarity guarantees

### **b) MINALOC**

- Through the Integrated Development Program monitor and ensure that the program facilities are delivered at sector level
- Use MINALOC organs and affiliated institutions such as Access to Finance Forums, ITORERO and others as a delivery vehicle for mobilization and awareness at grass roots level

### **c) National Women's Council (NWC) and National Youth Council (NCF):**

- Identification, mobilization and sensitization of eligible women and youth;
- Play a considerable role in forming of women and youth cooperatives and clusters;
- Follow up how the granted loans are paid back and to make sure that the payback period is respected.

### **d) Rwanda Cooperative Agency (RCA)**

- Mobilization and capacity building of SACCOs and women and youth cooperatives;
- Supervision, Monitoring and Evaluation of SACCOs, women and youth cooperatives;
- Giving technical advices to SACCOs, women and youth cooperatives to fully participate and perform in this program.

**e) SACCOs and MFIs**

- To introduce special products which will facilitate the affordable access to finance program for women and youth;
- Sensitizing the women and youth towards the newly developed special products and the benefits they might gain from them;
- To introduce a systematic approach for loan recovery within this program;
- Proper coordination and collaboration with BDF for successful performance and implementation of this program.

**f) BDF**

- Sensitization and mobilization of SACCOs and MFIs about the different facilities available;
- Developing tools for easy accessibility to different financial facilities by the beneficiaries and proper management of this program;
- In close collaboration with RCA, BDF shall build the capacity of SACCOs.
- Facilitate in the implementation of the program by availing these facilities in time;
- In close collaboration with BDCs, BDF shall build the capacity of the program beneficiaries.
- Coaching, monitoring and evaluation of the program performance and implementation;