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LEVERAGING CAPITAL MARKETS FOR SME FINANCING IN RWANDA: FINAL REPORT

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EXECUTIVE SUMMARY

INTRODUCTION

1. The development of an efficient private sector spearheaded by competitiveness and entrepreneurship is an important pillar in the attainment of Rwanda's Vision2020. The SMEs comprise over 90 percent of private sector establishments and employ the majority of the population, indicating that growth in the sector is of strategic importance in addressing especially unemployment, and balance of payments and fiscal deficits.

2. However, in spite of the initiatives undertaken to promote SMEs and enhance their potential benefits to the economy, there still remains both internal and external challenges to their growth. This study has examined obstacles to use of capital markets by SMEs as a source of financing, and possible solutions have been suggested.

3. The study reviewed and examined the current legal and regulatory framework to establish the extent to which it facilitates private sector access to capital markets in Rwanda; available literature and data on private sector access to capital markets in Rwanda; and available evidence on what has worked in other countries in Africa and globally including in Asia, Brazil and Israel to provide lessons for Rwanda. To complement the 2011 establishment Census, primary data were collected from a sample of 200 unlisted/unquoted private sector firms.

B. SITUATION ANALYSIS

4. In 2010, the Government of Rwanda (GoR) designed the Small and Medium Enterprise (SME) Policy framework aimed at guiding the implementation of a coherent and coordinated policy to create an enabling environment for the growth of the SME sector. It is envisaged that the growth of the SME sector will increase non-farm employment, develop business and technical skills in the Rwandan workforce, support targeted value-added clusters, grow the tax base, and spur industrial growth.

5. Most micro and small enterprises employ up to four people and 93 percent of private sector establishments are SMEs and average value of capital employed by an establishment is RWF 16.3 million (US$26,080). About 60 percent of the SMEs have a turnover of less than 50 million Rwandese Francs.

6. A significant number of SMEs are engaged in wholesale and retail trade, and accommodation and food processing services business.

7. About 11.2 percent of SMEs are registered with Rwanda Revenue Authority (RRA) and 4.8% with Rwanda Development Board (RDB). However, 87% are registered at the local government. Some enterprises are also registered with the Rwanda Social Security Board (RSSB) and Private Sector Federation (PSF). However, according to the laws governing capital markets in Rwanda, one of the basic requirements for an enterprise to list in capital markets is incorporation. The majority of the SMEs are not incorporated.

8. About half of the total establishments commenced operations in 2010 and therefore relatively young. Most of the firms are family owned or sole proprietorships (91%), which raises the issue of corporate governance, a key pre-requisite for participating in capital markets.

9. Key requirements for accessing most formal sources of finance include preparing a business plan, monthly cash-flow projections, audited books of accounts, and a track record of the firm's banking transactions. Only 30 percent of the SMEs have a business plan and less than 30 percent project cash-flows. About 40 percent of SMEs have been using retained earnings to finance their operations. Thirty percent of SMEs used trade credit and 25 percent indicated that they used bank loans. A negligible percent of SMEs reported use of debt securities or equity financing. Some of the firms interviewed reported a need for external financing.

10. The Capital Markets Authority (CMA) in Rwanda was established in 2011 to guide the development of the capital market. The Rwanda Stock Exchange (RSE) Limited was incorporated in 2005 but launched in 2008 with the objective of carrying out stock market operations. There are both the primary and secondary markets. The RSE listing rules and regulations provide a framework for facilitating trade in a fair and efficient securities market.

11. Currently, the RSE has two domestic stocks (equity) - Bank of Kigali and Bralirwa Ltd, two cross-listings - Nation Media Group and Kenya Commercial Bank, five Treasury bonds and one corporate bond (debt) by the Commercial Bank of Rwanda. Clearly, the capital market is still nascent.

12. The Central Bank of Rwanda has implemented an Integrated Payment and Processing System that includes the Real Time Gross Settlement, the Automated Clearing House, the Automated Transfer System and the Central Securities Depository aimed at improving efficiency of the system. This has resulted into adoption of a T+2 settlement cycle for all securities traded, which has the benefit of improving liquidity in the market, making it attractive to domestic and foreign investors.

13. *Informality of SMEs:* This means that the firms are not incorporated and therefore, cannot sue and cannot also be sued. In a situation like this, banks are not sure how to deal with such firms, especially when it comes to signing contracts.

14. *Range of products accessed:* Term loans are the most widely used financing product by the SMEs largely due to lack of the necessary requirements to access other financial instruments.

15. Given the small size of loan transactions by the SMEs, the transaction costs of processing and tracking the performance of such loans are high. SMEs also tend to experience a more variable rate of return and higher rates of failure, and access to Business Development Services (BDS) is costly. Similarly, the relatively smaller loan sizes and the high information costs increase the implementation costs per deal when processing finance.

16. *Listing requirements:* These include minimum capital requirement of US$ 813,008; a well-formulated business plan; audited financial records; and a generally accepted corporate governance structure. Most SMEs do not meet these requirements.

17. *Absence of relevant and robust SME information and information sharing system:* For equity and debt markets to be developed for SMEs, relevant and complete information about these enterprises has to be accessible. This is not the case in Rwanda's capital markets currently.

C. REGIONAL AND INTERNATIONAL EXPERIENCE OF SME ACCESS TO CAPITAL MARKETS:

18. There are initiatives being undertaken within the region and beyond to enable SMEs access financing from various sources. These initiatives include private equity and venture capital; fund of funds; and establishment of alternative investment market segments in the capital markets for SMEs.

19 *Lessons for Rwanda from the experience of Private Equity/Venture Capital:*

Kenya	Tunisia	Brazil
It is important to ensure that there are promising equity investments in either small enterprises who are willing to accept outside shareholders, or larger firms that can raise bank financing.	Institutions such as development banks should not be set-up to provide similar services to SMEs when a venture capital fund has been established.	○ PE/VC initiative can be a private-public initiative. ○ PE/VC managers can act as catalysts for growth of companies before they enter stock markets. ○ PE/VC provides more than money. For instance, it may require a share in the company it is investing in and provide strategic advice and access to valuable business network. ○ PE/VC exercises careful selection, monitoring and governance that mitigate uncertainty and risks. ○ Through an agreement, PE/VC exits take place in the stock exchange, which promotes listing of SMEs in the stock markets. ○ The success of PE/VC is also dependent on local economic and institutional environment, including suitable legal and fiscal system and efficient bureaucratic procedures.

20. *Lessons for Rwanda from the experience of fund of funds:*

Israel Fund of Funds	Korea Fund of Funds	Venture Capital Fund of Ghana
○ Government initiative ○ Clear program design with in-built incentive structure in terms of option to buy out government share in a fixed time period ○ Presence of enterprises with growth potential ○ Existence of willing investors ○ Presence of an active capital market	1. Fully government funded initiative which ensures that the fund is able to finance the venture capital market even when the economy is in recession. 2. Existence of other venture capital companies 3. Fund manager evaluates, selects, and distributes capital to a number of funds based on high standards and with a significant level of independence. 4. The fund meets public interest and operates more efficiently. As a result, the Fund is more profitable.	1. Government initiative partnered with the private sector 2. SMEs are also provided with technical assistance to boost management and technical expertise and productive capabilities. 3. Fund managers are responsible for deal sourcing, selection, monitoring and exit of Fund investments but final investment decisions rest with the Investment Committees (ICs) made up of representatives of investors and independent professionals appointed by the Fund's Board of Directors.

21. *Lessons for Rwanda from the experience of establishing Alternative Investment Market*

Segment: Simplified or less stringent listing requirements for Uganda, Tanzania and Kenya has not resulted into listing of SMEs. For Kenya and Tanzania, it can be argued that it is too early to make this conclusion because effectively the implementation has not started. However, for Uganda, this suggests that simplifying the listing requirements is not a panacea. A holistic approach to dealing with constraints facing the SMEs needs to be designed as is the case with South Africa's experience where relaxation of the listing requirements has been augmented by other support services to the SMEs. For example, in addition to simplifying the listing requirements, there should be other programmes such as firm education and skills development, creation of awareness to change mind-sets of SMEs so that the SMEs do not continue to perceive stock markets as markets for big firms only, and provision of alternative financing options such as venture capital and/or asset-backed securities.

22. ***Lesson for Rwanda for setting-up Asset-back Securities (ABS):*** Whereas there are no specific relevant examples on SMEs using ABS, the following factors have been important ingredients in the development of the securitization market and are essential for future development and expansion even for the case of Rwanda:

- Improvements in the techniques of risk analysis, growth of derivative products and risk transference;
- Advances in information technology;
- Active involvement of banks in originating and distributing some or all of the risks resulting from SME investments;
- The relative stability of ABS as a risk class, with consistently lower levels of default compared with other rated asset classes as demonstrated over a number of years; and Greater Investor sophistication.
- Presence of credible rating agency, guarantee schemes to enhance the credit worthiness of SMEs, and appropriate laws to enhance ABS.

D. CONCLUSION AND POLICY RECOMMENDATIONS

23. SMEs play a significant role in economic development, including that of Rwanda. However, in spite of several initiatives undertaken by the Government of Rwanda to address constraints facing the SMEs, some of the constraints persist. This study explores various options for using capital markets to finance SMEs, including raising more affordable funds for business growth and expansion, risk sharing and diversification to reduce risk exposure by having more investors listed through a public offering; and increased publicity and scrutiny of SMEs' operations. Key policy recommendations for addressing the afore-mentioned challenges, include:

24. **Regulatory and legal reforms:** The existing listing requirements do not favor SMEs to benefit from the equity and debt market. It is recommended that the requirements be reviewed. However, the authorities should not stop at only relaxing the listing requirements. As the case of Altx in South Africa has demonstrated, the Government of Rwanda will need to partner with the RSE, a representative of the SMEs and development partners to address the other SME specific challenges such as limited financial management and reporting, issues of incorporation, corporate governance and other bottlenecks to SME development.

25. **Information sharing:** Authorities should embark on improving access to information on the operations and activities of SMEs. This could, for instance, be achieved by facilitating disclosure of

data and information by various agencies to facilitate the evaluation mechanism by private investors (for example venture capitalists) or banking institutions. The government, CMA, financial institutions and SMEs should consider developing an information gathering and sharing system on the performance, profitability, market niche, among others. The proposed information sharing system could be modeled around the credit reference bureau although the scope of information collected, managed and shared will extend beyond credit. Supporting legislation will be necessary for the operationalization of such an information sharing system.

26. Encouraging and promoting establishment of Private Equity and Venture Capital (PE/VC): The SMEs based in Rwanda can initially benefit from the venture funds in the region if information is availed to them regarding the requirements of these funds. In addition, an effort could be made to market some of Rwanda's SMEs to the fund managers in the region. Developing a prospectus containing productivity, financial, and growth potential of these SMEs could be useful in this regard.

27. Establishment of a Rwanda Fund of Funds (RFF): The GoR should initiate establishment of this fund by contributing the seed capital and inviting potential partners to join it.

28. Setting-up Asset-backed Securities: It is recommended that asset backed securities be an option that can be explored by the capital markets authority for the benefit of SMEs. This however would require a more vibrant securities exchange market with quality SMEs that are listed on the stock exchange.

29. **Reviewing the current approach of provision of Business Development Services:** The GoR should review its policy of divesting from providing business development services to SMEs and instead go for partnership between the government and the SMEs on 50:50 cost sharing basis. The GoR also needs to institute Education and Awareness Programmes on capital markets to prepare both the SMEs and capital markets to improve access to financing by the SMEs from the capital markets. Interventions such as reviewing the mandate and operations of RDB with the aim of improving its efficiency and effectiveness, and provision of tax breaks would strengthen the SMEs by improving their ownership, governance, management and profitability.

A. INTRODUCTION

A.1 Background

Rwanda's Vision 2020 identifies six priority pillars and three cross-cutting areas, the development of which is crucial for making the necessary long-term transformations in the Rwandan society. One of the pillars is the development of an efficient private sector spearheaded by competitiveness and entrepreneurship. The Establishment Census 2011 in Rwanda reports that the country had over 123,000 establishments in 2011 compared to an estimated 73,000 in 2008, a growth of nearly 70% over a three-year period. As Table 1 shows, of the 123,526 establishments, 96.5% were in the private sector, employing 91% of Rwanda's workforce mostly in agriculture (Ministry of Trade and Industry, 2011; Ministry of Trade and Industry, 2010; Private Sector Federation, 2008). The SMEs comprise 98% of all the establishments; micro-sized establishments - those employing between 1 and 3 people - account for 92.6% of all establishments while enterprises with only one worker account for 72% of all establishments. This indicates that growth in the SME sector could be of strategic importance especially in addressing the challenge of unemployment in general and youth unemployment in particular.

Table 1: **Distribution of Establishments in Rwanda**

Total Establishments (Number)	123,526
Establishments in the public sector (%)	3.5
Establishments in the private sector (%)	96.5
SMEs out of total establishments (%)	98
Micro-sized enterprises with 1- 3 workers (%)	92.6
Micro-sized enterprises with one worker (%)	72

Source: Ministry of Trade and Industry, 2011

Growth of the SME sector also has the potential to lower Rwanda's trade deficit estimated at $925m in 2011 owing to the low export potential mainly driven by traditional crops (coffee and tea) and minerals. Rwanda's vision is to address this trade imbalance by increasing the export earnings through value addition. In addition, the Government of Rwanda (GoR) envisages reducing its dependence on external grants and loans which contributed over 50 percent of the budget in FY 2011/12. Reducing the fiscal deficit could be achieved by tapping into the SMEs as a source of tax revenues. Out of the 123,526 SMEs, only 25,000 (20%) were registered, of which 24% pay taxes on a regular basis. Registration of more SMEs and drawing them into the tax net can therefore contribute to the expansion of the tax base and tax revenues.

Several initiatives to support SME development have been undertaken by various actors including the government, development partners, and development finance institutions. The initiatives include the establishment of the Centre d'Appui aux Petites et Moyennes Enterprises (CAPMER) whose major mandate was to provide training, advice and technical support to SMEs; the Financial Sector Development Program recently instituted within the Ministry of Finance and Economic Planning; and licensing of 416 Umurenge (village level) SACCOs to grant loans of up to 40% of their deposits. Other initiatives include tailoring of a significant proportion of Rwanda Development Bank (BRD)'s lending activities to SMEs and cooperatives; establishment of a Rwanda SME Fund with an estimated US$8m in loanable funds (The Rwanda SME Fund is a private venture fund under Business Partners International and funded by International Finance Corporation, Rwanda Enterprise Investment Company, and Stitchting Doen); and preparation in 2011 of the SME Development Action Plan by the Ministry of Trade and Industry.

In spite of the initiatives undertaken to promote SMEs and enhance their potential benefits, there still remains both internal and external challenges to their growth. Most SMEs still depend on internally generated funds and borrowing from informal sources. About 22% of the SMEs employ less than 500,000 Rwandese Francs in form of capital (US$1 = RwF625 as at 4 September, 2012). Only 11.2% of SMEs are registered with the Rwanda Revenue Authority although up to 87% were found to have registered at the local government level. The Establishment Census 2011 reports that 89% of the enterprises are informal. This is compounded by the limited capacity of SMEs to develop bankable projects, particularly owing to limited human capital and skills[1]. In addition, financial institutions consider SMEs to be highly risky and the transaction costs of lending to them high.

Furthermore, the overall private sector policy environment, which in the past was oriented towards large companies, has been identified as an impediment to the growth of SMEs and the Government of Rwanda has responded by developing an SME policy. The growth of SMEs is also constrained limited access to affordable and quality business development services which are specifically tailored to their needs. The rural SMEs are also constrained by the absence of supporting infrastructure such as road network, power supply, water for production, and telecommunication services required for their growth.

Several studies on SMEs rank lack of access to finance as one of the most critical constraints to the growth of SMEs (Ministry of Trade and Industry, 2011; African Development Bank, 2012; Global Competitiveness Report 2009/10). A number of reasons have been advanced in support of the use of capital markets for financing SMEs. A primary one is raising funds for business growth and expansion (Friedman and Grose, 2006; Manas and Manoj, 2006; Boot, et al., 2003). Wagacha (2001) reports that some firms seek capital markets financing because it is cheaper than other forms of financing particularly bank finance. Other benefits that come with accessing capital markets financing include risk sharing and diversification to reduce exposure to risk by having more investors through a public offering and increased publicity and public scrutiny to improve their performance. It is also argued that capital markets facilitate mergers and acquisitions, thereby promoting efficiency, performance, and growth of firms.

The financing gap for SMEs, defined as the difference between their demand for and supply of financing, results from both supply and demand side factors. On the demand side, the financing needs vary depending on the size of the firm; its level of maturity; the level of growth, including the relative importance of fixed and working capital; and the nature of ownership, which, for most SMEs, especially micro- and small-scale, are family owned. In Rwanda sole-proprietorship is the most common form of legal status, accounting for 91% of the establishments that existed in 2011 (Ministry

[1] A Capacity Needs Assessment of SMEs conducted by the Private Sector Federation in 2008 reports that many SMEs suffer from lack of technical and business skills, technical and industrial knowledge and finance accounting and management.

of Trade and Industry, 2011). In addition, awareness about the operations of capital markets, the associated costs and the ability of the SMEs to absorb further debt or equity are contributing factors to the financing gap.

On the supply side, there are also factors contributing to the SME financing gap. First, there is a perception that SMEs are risky and associated with higher transaction costs relative to the small loans required. Second, the limited availability of innovative financing methods (other than banks) including, venture capital, collaterized debt obligations, mutual funds, among others is another impediment. Third, the capital markets in Rwanda are still nascent. Fourth, the legal and regulatory framework is inadequate in relation to the provision of long-term funds and its role in facilitating the development of capital markets in Rwanda. These obstacles to the use of capital markets by SMEs as a source of financing have been examined in this report and possible solutions suggested.

A.2 Objectives and contribution of the study

The primary objective of this study is to identify obstacles to SME use of capital markets for long-term financing and to identify policies for mitigating those challenges. Specifically, the study aims at:

- Identifying the major barriers to access to long term capital for SMEs through the capital market and other forms of formal financing;
- Outlining a phased policy action plan for addressing these barriers explicitly indicating the short-, medium-, and longer-term measures; and
- Stimulating dialogue on reform opportunities for SMEs to access long-term capital financing.

The study's principal contribution includes identifying policy recommendations and other options for increasing SMEs' access to long-term financing through the capital markets and other sources, drawing on lessons from successful approaches in other countries in Africa and globally.

A.3 Methodology and Scope

The methodology employed comprises of the following:

- Review of the current legal and regulatory framework to establish the extent to which it facilitates private sector access to capital markets in Rwanda;
- Review of the available literature and data on private sector access to capital markets in Rwanda;
- Examination of available evidence on what has worked in other countries in Africa and globally including in Asia, Brazil and Israel to provide lessons for Rwanda;
- Collection of primary data from a sample of 200 unlisted/unquoted private sector firms to complement the 2011 Establishment Census. The sample design used was stratified simple random sampling. The survey relied on the register of enterprises used by the National Institute of Statistics in Rwanda 2011 to conduct the Establishment Census; and
- Synthesis of the findings from the foregoing assessment to inform key recommendations and an action plan for increasing SME access to finance through the capital markets and other sources.

The fieldwork was done in May, 2012 and covered Kigali, and in particular Gasabo, Kicuciro, and Nyarugenge districts. Data collected were primarily on access to long term financing by the sampled

SMEs that were not collected during the Establishment Census conducted in 2011. Financial institutions were also surveyed to identify the key supply-side impediments to access to long term financing for SMEs.

The SME survey was cross-sectional and the unit of analysis is the sampled firms. Both descriptive and quantitative assessments have been used in the data analysis.

A.4. Organization of the Report

The report is structured in six main sections as follows. Section A presents the introduction, objectives, methodology and scope of the study. Section B provides a situation analysis with specific focus on the overview of Rwanda's economy, analysis of the SME sector, the capital markets and the initiatives being pursued in Rwanda to improve access by SMEs to financing. The situation analysis was done based on both the results of the Establishment Census 2011 and the study's complementary survey of 200 firms. Section C draws lessons from regional and international experiences while Section D scopes the potential for SME financing and listing on Rwanda's capital market. Section C concludes with policy recommendations and Section F presents the proposed action plan for implementing these recommendations.

B. SITUATION ANALYSIS

B.1 Overview of Rwanda's Economy

Rwanda's economy has improved tremendously with per-capita GDP (PPP) estimated at $1,284 in 2011, compared with $416 in 1994. The real GDP grew at an estimated 8.6% in 2011 up from 7.2% and 6.2% in 2010 and 2009 respectively. A combination of factors ranging from implementation of prudent and coordinated macroeconomic policies to strategic sector policies, programmes such as flagships, and plans has driven this impressive economic performance.

The agriculture sector remains a key engine of growth, comprising of an estimated 33.6percent of GDP in 2011, but the sector is mostly subsistence with a large number of rural household's farm plots small to earn a decent living. The sector grew at an average of 5.3 percent over the last five years, contributing an average of about 35.1 percent to GDP. In addition, the sector employs 80-90 percent of the labor force and generates more than 45 percent of the country's export revenues.

The services sector has been growing at an average of 10 percent over the past five years. Having suffered during 2008/09 economic slowdown as banks reduced lending; the services sector rebounded in 2010, contributing 45.6 percent to the country's GDP. Key drivers of this growth include banking and finance, wholesale and retail trade, hotels and restaurants, transport, storage, communication, and insurance as a result of the life insurance awareness campaigns. Others include real estate, business services and public administration such as education and health. The growth in communication services was on due to increase in mobile phone penetration. Tourism, one of the fastest-growing economic resources, became the country's leading single foreign exchange earner in 2011 with receipts of US$ 252 million and higher than the US$ 202 million recorded in 2010.

The industrial sector is small, contributing 15.1 percent of GDP in 2011. However, Rwanda's mining sub-sector is an important contributor to GDP and generated an estimated US$ 151 million in 2011 up from US$ 54.6 million and US$ 67.8 million in 2009 and 2010 respectively. The construction sector, which accounts for over 50 percent of industry sector output recovered from a slump in 2009 and 2010 to grow at 23.6 percent in 2011. The private sector has also grown in tandem with the economy, with the Establishment Census 2011 reporting an increase of the establishments from 73,000 in 2008 to over 123,000 in 2011, the majority of which are SMEs.

B.2 SME Sector in Rwanda

B.2.1 Policy, Legal and Regulatory Framework

Following on from its Vision 2020, in 2010, the Government of Rwanda (GoR) designed the Small and Medium Enterprise (SME) Policy framework aimed at guiding the implementation of a coherent and coordinated policy to create an enabling environment for the growth of the SME sector. It is envisaged that the growth of the SME sector will increase non-farm employment, develop business and technical skills in the Rwandan workforce, support targeted value-added clusters, grow the tax base, and spur industrial growth.

The SME policy is supported by other policies, laws and strategies that include, Trade Policy (2006), Industrial Policy (2006), National Policy on the Promotion of Cooperatives (2006), National Microfinance Policy and Implementation Strategy (2007), Financial Sector Development Plan (2007), Companies Act (2009), National Savings Mobilization Strategy and SACCO (Savings and Credit Cooperatives) Strategy (2009), and the National Export Strategy (2011). The SME policy therefore, among others, attempts to bridge the gap between previous policies which are cross-cutting in nature and targeted to large companies, thereby filling the void of policies specifically targeted to SMEs with a particular focus on facilitating investment finance.

B.2.2 SME Definition in Rwanda

There are several definitions of SMEs across the globe. For the purposes of this study, the definition of SMEs is adopted from the SME Policy document of the Government of Rwanda and illustrated in Table 2. Note that the definition takes into account the following: (i) Two of the three conditions i.e. net capital investments, annual turnover, and number of employees should be met; (ii) Rwanda Revenue Authority (RRA) has a different definition of SMEs for tax purposes; and (iii) Informal companies are defined as those not registered in accordance with the Companies Act or other legislation related to SMEs and cooperatives. RRA classifies small enterprises as those with annual turnover in the range of US$35,087 and US$350,877, while medium enterprise with annual turnover of US$350,877 and US$877,192 (East Africa Business Week, 15 July, 2011).

Table 2: The SME Definition in Rwanda

Size of enterprise	Net capital investments (million of RwF)	Annual turnover (million RwF)	Number of Employees
Micro-enterprise	Less than 0.5	Less than 0.3	1 to 3
Small-enterprise	0.5 to 15	0.3 to 12	4 to 30
Medium-enterprise	15 to 75	12 to 50	31 to 100
Large enterprise	More than 75	More than 50	More than 100

Source: Ministry of Trade and Industry, 2010; USD$ = RWF 620 as at 13th September

B.2.3 Structure and Characteristics of SMEs

To provide a more complete description of SMEs in Rwanda, we examined in more detail their structure and characteristics along the following dimensions: number of SMEs and employment, size of capital; sectoral composition and turnover; business registration; ownership, age, corporate governance; financial management and reporting; and sources of and demand for financing.

I. Number of SMEs and Employment:

Findings from both the Establishment Census, 2011 and the survey conducted by this study (complementary survey) indicate that most micro and small enterprises employ up to four people, suggesting that growth in the sector could be of strategic importance, especially in addressing the challenge of youth unemployment. As indicated in the Table 3, micro-sized establishments - those employing between 1 and 3 people - account for 92.6% of all establishments with 89,219 (72%) having just one worker. In terms of employment, micro-enterprises employ 51.3% of the 281,946 persons employed in all the establishments, further underscoring the importance of the SMEs with respect to employment generation.

Table 3: Number of SMEs and Employment

	Micro	Small	Medium	Large
Number	**114,329**	**8,548**	**513**	**106**
% proportion	**92.6**	**6.9**	**0.4**	**0.1**
Employment (%)	**51.3**	**24**	**8.7**	**16**

Source: Ministry of Trade and Industry, 2011

II. Capital employed

The structure of establishments in Rwanda according to capital employed is pyramidal, with a large base of micro-sized and a small upper-level of large-sized establishments. A total of 90,388 (71%) enterprises are categorized as micro establishments compared to the 1,095 (less than 1%) that fall in the large category (Table 4). The average value of capital employed by an establishment in Rwanda is RWF 16.3 million (US$26,080), which is relatively small compared to US$35,087 lower end turnover of a small enterprise as defined by the RRA. Rwanda being a low income country, it is not surprising to find over 70% of the establishments being micro-enterprises because of the low level of capital required to set up a micro-enterprise and a large subsistence agriculture.

Table 4: **SMEs by capital employed**

	Micro (<Rwf 0.5m)	Small (Rwf 0.5m – 15m)	Medium (Rwf 15m – 75m)	Large (Rwf +Rwf 75m)
Number	90,388	27,603	2,052	1,095
% proportion	71.2	22.3	1.7	0.9

Source: Ministry of Trade and Industry, 2011

III. Sectoral Composition and Turnover

A significant number of SMEs are engaged in wholesale and retail trade, and accommodation and food processing services business as indicated in Table 5.

Table 5: SMEs by Economic Sector

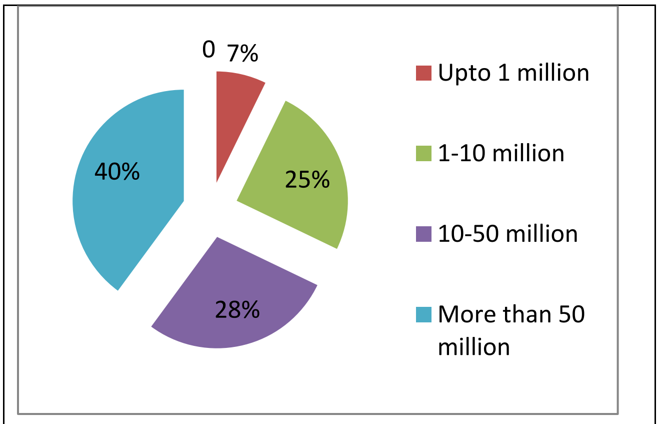
	Establishments by Size			
Economic Sector	**Micro**	**Small**	**Medium**	**Large**
Agriculture, Forestry & Fishing	411	211	37	15
Mining & Quarrying	9	24	13	3

Manufacturing	3,663	781	87	24
Utilities	298	45	14	1
Construction	36	49	11	11
Wholesale and Retail Trade	63,153	1,418	51	15
Accommodation and food processing services business	31,109	2,111	73	7
Information and Communication	484	67	6	1
Financial and Insurance	436	513	12	5
Professional Services	4,870	625	13	1
Health and Education	411	703	145	7
Other Services	9,449	2,001	51	15

Source: Ministry of Trade and Industry, 2011

Based on the 2012 complementary survey, 60% of the SMEs interviewed have a turnover of less than 50 million Rwandese Francs (Figure 1). This collaborates findings from the Establishment Census which also indicates that the majority of enterprises in Rwanda fall within the micro, small and medium enterprise category. Compared to the capital employed as per the definition of SMEs, a turnover of about 50 million Rwandese Francs is a substantial amount and is quite promising for the growth of the SME industry and the Rwandan economy.

Figure 1: Turnover of the surveyed SMEs



Source: Author's computation from the survey data

IV. Registration

Out of a total 123,526 establishment recorded in the 2011 in Rwanda, only 11.2% are registered with Rwanda Revenue Authority (RRA) and 4.8% with Rwanda Development Board (RDB). However, 107,413 establishments (87%) are registered at the sector level for instance by Rwanda Cooperative Agency, and at the district level (see Table 6). Some enterprises are also registered with the Rwanda Social Security Board (RSSB) and Private Sector Federation (PSF). However, registering with these entities does not necessarily make the enterprises qualified to benefit from the capital markets. According to the laws governing capital markets in Rwanda, one of the basic requirements for an enterprise to list in capital markets is incorporation (see section B3). This suggests that the SMEs should aim for incorporation as a first step into tapping into long term finance from the capital markets.

Table 6: **Registration of SMEs by National Authorities**

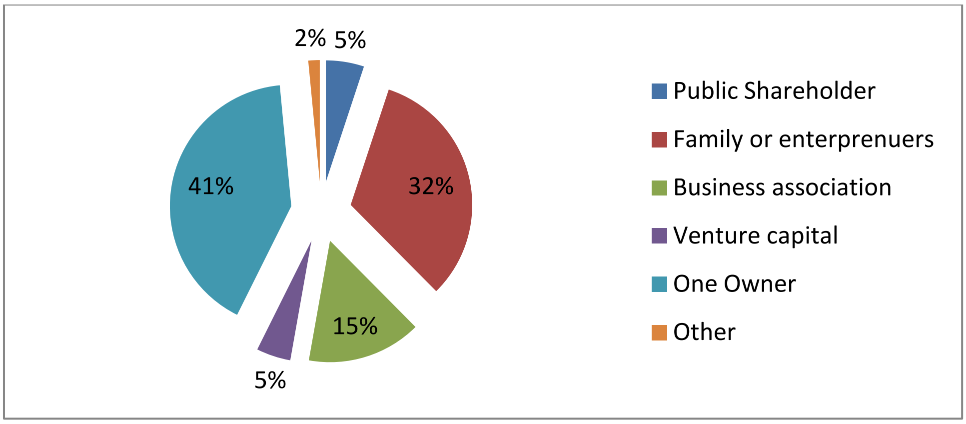
	RRA	RSSB	RDB	PSF	District	Sector
Number	13,878	5,519	6,037	5,724	97,766	107,413
%	11.2	4.5	4.8	4.6	79	87

Source: Ministry of Trade and Industry, 2011

V. Ownership, Corporate Governance[2] and Age

The Establishment Census, 2011 reveals that a total of 60,202, almost half of the total establishments recorded commenced operations in 2010. This compares with 43,287 establishments (35.9%) that started operations between 2005 and 2009, and 9,172 firms (7.4%) established during from the period 2000-2005. In addition, most of the firms are family owned or sole proprietorships (91%) – Figure 2. There are 2,520 (2%) establishments limited by shares, and 8,573 (7%) with other forms of legal status (e.g. non-profit associations, government). The above statistics suggest that the majority of the existing establishments are barely two years old, indicating that firm survival could be a critical issue especially with regard to accessing financing from capital markets. The statistics also indicate that the majority of the enterprises are sole proprietorships, which raises the issue of corporate governance, another key pre-requisite for participating in capital markets. This means that support to SMEs to prepare them to access financing from capital markets will, among other sources, need to focus on improving corporate governance.

Figure 2: Ownership of the surveyed SMEs



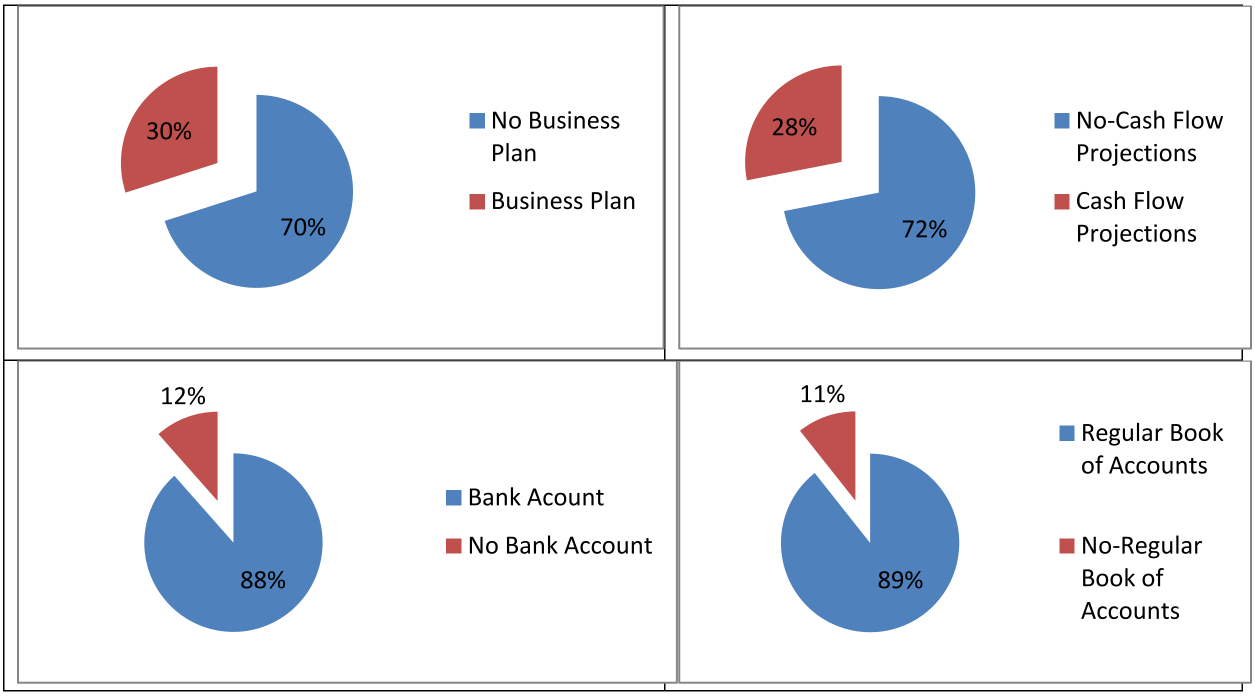
Source: Author's computation from the survey data

[2] Corporate governance is a set of relationships between a company's management, its board, its shareholders and other stakeholders. It provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2004: The Principles of Corporate Governance)—include in references.

VI. Financial Management[3] and Reporting

Findings from the complementary survey established that the key requirements for accessing most formal sources of finance include preparing a business plan, monthly cash-flow projections, audited books of accounts, and a track record of the firm's banking transactions. As shown in Figure 3, the survey results indicate that only 30 percent of the SMEs have a business plan. The number of companies that project cash flows is less than 30 percent. Absence of all or some of these requirements is often used as a basis for rejecting SME loan applications. However, despite the fact that most SMEs operate without the business plans or cash flow projections, 88 percent keep bank accounts and regular books of accounts.

Figure 3: Presence of Business Plan, Cash Flow Projections, Bank Account and Regular Books of Accounts



Source: Author's computation using Survey data

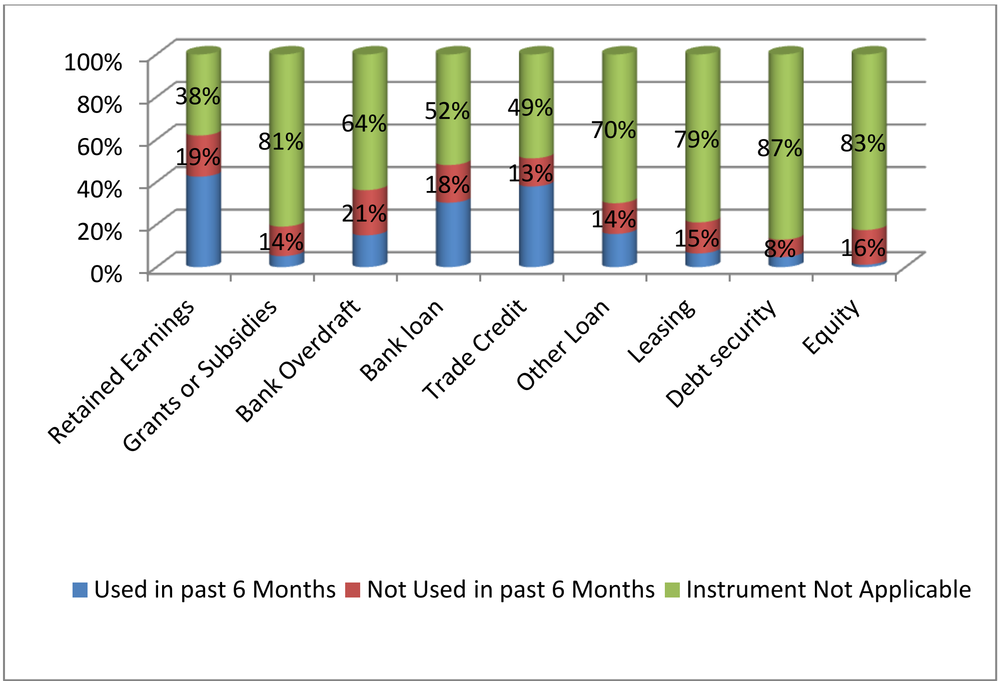
VII. Sources of and demand for financing

The 2012 complementary survey also asked the enumerated SMEs to indicate their sources of financing. As Figure 4 shows, about 40 percent indicated that they have been using retained earnings to finance their operations. Thirty percent of SMEs used trade credit and 25 percent indicated that they used bank loans. A negligible percent of SMEs reported use of debt securities or equity financing, which is not surprising given the status of ownership, governance, incorporation, and

[3] Financial management is the planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization http://www.businessdictionary.com

financial management and reporting of the SMEs discussed above. However the survey did not establish the circumstances under which unlisted companies were able to secure funding from the capital markets. In Kenya, findings from a survey of firms established that SMEs obtained capital from a variety of sources especially family and friends, but also co-operatives, banks, NGOs, and other financial institutions (Christopher et.al. 2002).

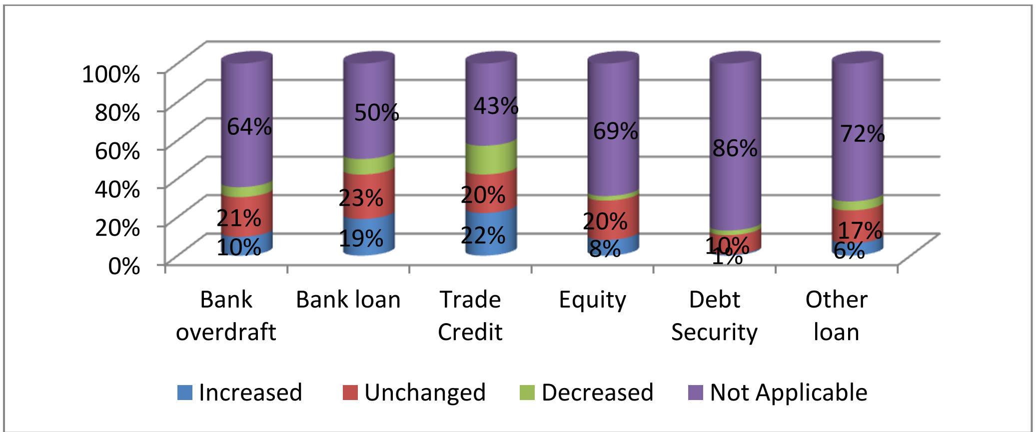
Figure 4: Sources of Financing by SMEs



Source: Author's computation from the survey data

Some of the firms interviewed reported a need for external financing. For instance 19 percent of the firms reported that they would require more financing in form of bank loans and 22 percent in form of trade credit (Figure 5). Fixed investment, inventory and working capital as well as limited availability of internal funds were reported as the major drivers for external financing.

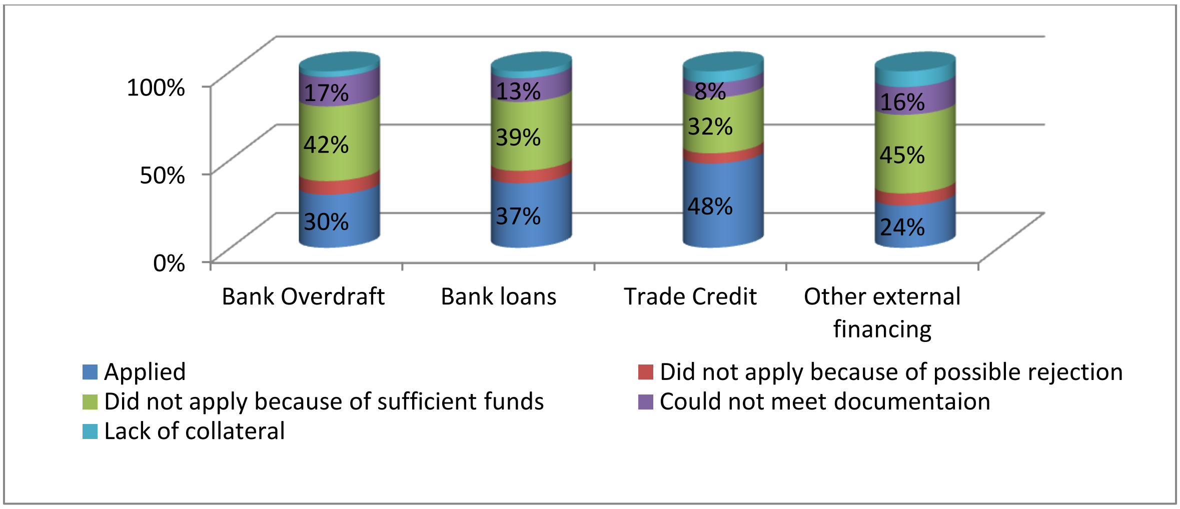
Figure 5: **Demand for Increased Financing from Various Sources**



Source: Author's computation from the survey data

The surveyed SMEs were also asked whether they had applied for additional financing in the last six months. More than 30 percent of the SMEs surveyed had applied for funds in the form of bank loans, bank overdrafts and trade credit (Figure 6). On average about 40 percent of the SMEs indicated that there was no need for them to apply for external funds as own-sources of financing such as retaining earnings were considered to be adequate. About 14 percent of the firms interviewed indicated that they could not meet the documentation requirements for the various loan facilities. In addition 7 percent indicated that they were discouraged from applying for fear of rejection while 6 percent reported that they did not have collateral to secure the loans.

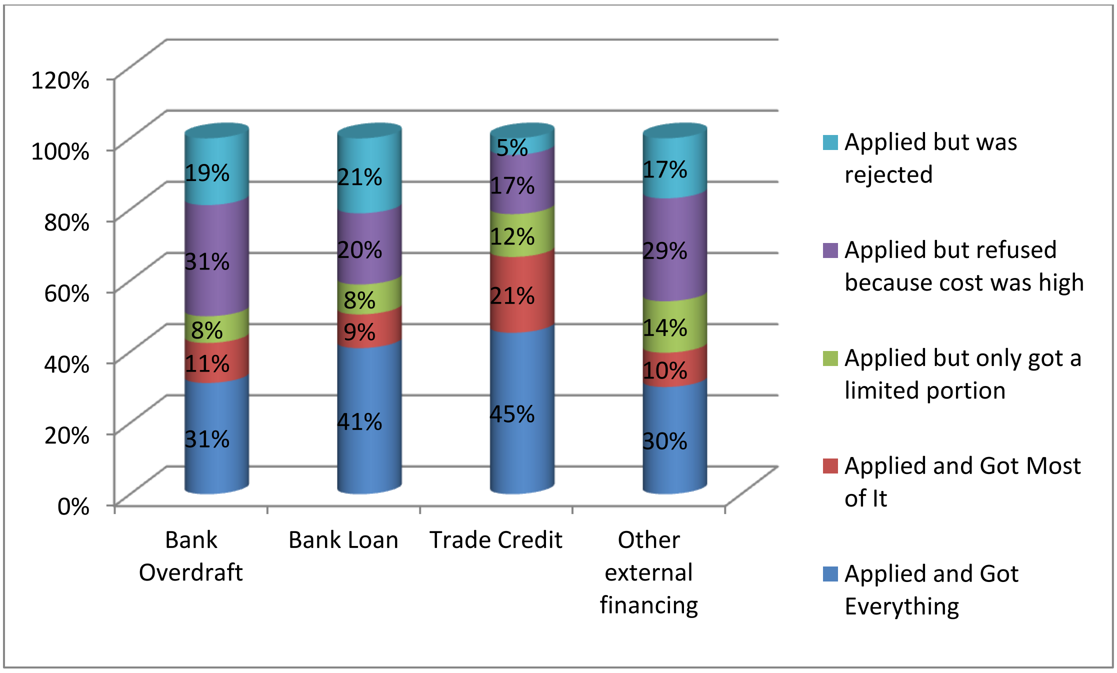
Figure 6: Factors Influencing SME Decisions Regarding External Financing



Source: Author's computation from the survey data

On average, between 30 and 45 percent of firms which applied for loans received what they requested for. The majority of firms applying for instruments such as bank loans indicated that they only received 41 percent of the requested amount (Figure 7). The number of firms whose applications were rejected is between 5 and 19 percent of all firms surveyed. This creates challenges for the firms to realize their intended objectives for borrowing.

Figure 7: Feedback on Applications for Financing

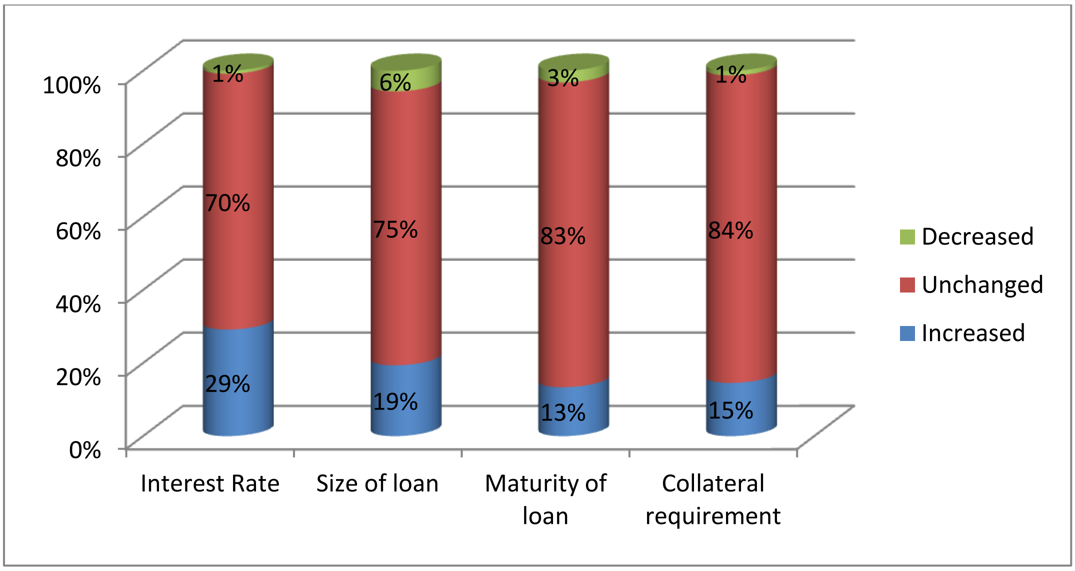


Source: Author's computation from survey data

VIII. Terms and Conditions of Financing SMEs

The complementary survey also reveals that the terms and conditions for borrowing from formal sources have not changed substantially (Figure 8) over the past six months. About 30 percent of the firms surveyed reported an increase in interest rates charged while the number of firms reporting increased collateral requirements is 15 percent. The majority of the firms indicated that size of loans (loan amount) remained unchanged while the least number of firms reported that maturity of loan (period over which the loan must be fully repaid) decreased

Figure 8: Terms and Conditions of Borrowing



Source: Author's computation from survey data

IX Summary of key messages from the structure and characteristics of SMEs in Rwanda.

- Most micro and small enterprises employ up to four people.
- The average value of capital employed by an establishment in Rwanda is RWF 16.3 million (US$26,080) compared to US$35,087 which is the lower turnover of a small enterprise as defined by RRA.
- A significant number of SMEs are engaged in wholesale and retail trade, and accommodation and food processing services business.
- 60% of the SMEs have a turnover of less than 50 million Rwandese Francs.
- 11.2% of SMEs are registered with Rwanda Revenue Authority (RRA) and 4.8% with Rwanda Development Board (RDB). 87% are registered at the sector level. Some are registered with the Rwanda Social Security Board (RSSB) and Private Sector Federation (PSF).
- About half of the total establishments commenced operations in 2010. Most of the firms are family owned or sole proprietorships. 2% of the establishments are limited by shares.
- 30 percent of the SMEs have a business plan. The number of companies that project cash flows is less than 30 percent.
- About 40 percent of SMEs have been using retained earnings to finance their operations. 30% used trade credit and 25 percent used bank loans. A negligible percent of SMEs reported use of debt securities or equity financing.

B.2.4. Constraints faced by SMEs in accessing financing and Banks in lending to SMEs

B.2.4.1 Constrains faced by SMEs

SMEs across the world face an array of constraints. The complementary survey asked firms to rank the most pressing problems that hinder their business operations and growth. The key challenges reported include (see Table 7): (i) difficulties experienced in finding customers, (ii) high level of competition in the same goods market, (iii) limited access to finance with more than 38 percent of the firms surveyed indicating that this is their biggest challenge, and (iv) increasing cost of production arising mainly from rising wages.

Table 7: Constraints faced by SMEs

	Constraints faced by SMEs	Proportion of respondents (%)
1	Difficulties experienced in finding customers	56
2	High level of competition	42
3	Limited access to finance	38
4	Increasing cost of production	43

Source: Author's computation from survey data

B.2.4.1 Constrains faced by Financial Institutions

A questionnaire tailored to banks was also administered by this study to identify some of the key factors that constrain banks in their efforts to extend credit to SMEs. Out of the 11 questionnaires distributed, 7 banks responded with a fully completed questionnaire[4]. The Banks interviewed included those which have existed since 1967 and also the recently established ones. The key findings from this survey are summarized below.

i. All the banks interviewed indicated that they provide financing instruments tailored to SMEs, and indeed some have specialized SME departments. However, there are two major impediments to lending to SMEs. First, is the informality of SMEs, which means that the firms are not incorporated and therefore, cannot sue and cannot also be sued. In a situation like this, banks are not sure how to deal with such firms, especially when it comes to signing contracts. This poses a challenge and therefore, is a problem to both the firms and the lending institutions. Second, is the lack of bankable projects. However, all banks were of the view that the documentation required from SMEs to support loan applications did not comprise a major bottleneck to accessing bank financing. Moreover, four of the seven banks interviewed did not consider the corporate governance of SMEs as a serious limitation to borrowing.

ii. All the seven banks surveyed indicated that term loans are the most widely used financing product while only two banks indicated use of equity financing. Several financing options are made available to SMEs by banks including traditional loans, overdraft facilities, asset financing, equity financing, and guarantees. This suggests that while the scope of financial services available to the SMEs is relatively large, the SMEs utilize only a few of these instruments. A key reason for this is the characteristics of SMEs which limited the suitability of the majority of the available financing options. For the SMEs to fully benefit from the available financing options, the banks would need to further simplify their requirements which include business plans, cash flow projections, incorporation/registration, and strict corporate governance requirements, among other things. Banks will also need to educate SMEs on what they need to do to benefit from the available financing options. Introduction of additional financial instruments Banks could also consider introducing new products tailored to SMEs such as asset-backed securities, discussed in Section D. Expanding access to quality and affordable business development services would provide an effective platform for addressing some of the SME specific challenges that impede their access to financing.

iii. Banks use various methods to target SMEs which include advertising, use of the existing clients' base and referrals from existing customers. In addition, some banks have designed specialized products like the agriculture guarantee fund which are largely tailored towards SMEs. As a result, the average proportion of loans to SMEs to the total loan portfolio across the surveyed banks is about 36 percent on average[5]. Data from the central bank indicates that the average lending rate is 16 percent. The bulk of the financing requested by SMEs is working capital with maturity period of less than 2 years. These loans are backed by collateral such as land, movable assets and buildings. Microfinance institutions are addressing the issue of requiring traditional collateral such as land and buildings through group guarantee arrangements and requesting for non-traditional collateral such as certificate of deposits and household assets.

[4] Rwanda has 11 commercial banks and 3 microfinance banking institutions.

[5] The complementary bank survey did not capture the activities funded.

iv. The surveyed banks concurred that the government should play a leading role in making financing available to SMEs. The existing guarantee scheme under the Business Development Fund (BDF), formerly under the Rwanda Development Bank, while appropriate has only benefited a few SMEs. This is partly because the biggest challenge of SMEs is to raise equity required by the banks as an indication that the proprietors of the SMEs share the risks involved in the business. To address this problem banks indicated that the government should create specialized funds tailored to SMEs. Section D also proposes establishing equity and venture capital, fund of funds and asset-backed securities as options for addressing these challenges.

v. Generally, banks perceive SMEs as potential clients. This positive perception notwithstanding, all banks still consider the sector as risky with a short survival life span. The default rate on SME loan portfolios for most of the surveyed banks ranges between 2-7 percent with only one of the surveyed banks reporting a default rate of 35 percent on its SME loan portfolio. In addition, given that the loans are small; this raises the transaction costs of processing and tracking the performance of such loans. Whereas SMEs have a high growth potential, they are also more vulnerable to sudden changes in the economic and competitive environment (http://ec.europa.eu/enterprise). SMEs also tend to experience a more variable rate of return and higher rates of failure.

B.2.4.3 Constraints related to Business Advisory Services

Business Development Services (BDS) are currently provided through five centers which were privatized. The centers are based in four provinces and the city of Kigali. Despite the presence of these centers they are also faced with challenges including the limited capacity of the new operators of the BDS centers to provide the needed services to SMEs—suggesting a need for capacity development for these operators; absence of a defined client base of SMEs which has implications for the sustainability of these BDS centers and a lack of appreciation of BDS services by the SME clients. To address these challenges, RDB is currently working with the operators of the BDS centers to develop business plans following which funding will be mobilized from various partners to support the development of these centers and thus improve efficiency in the provision of advisory services.

BDF and RDB have been making various efforts to make advisory services accessible to SMEs. The key objective of the BDF is to support increased lending to both the private sector through the provision of guarantees to individuals and SMEs. BDF also provides advisory services to SMEs with the objective of improving their managerial capacity. In spite of these initiatives by BDF and RDB, challenges remain, which can be addressed by additional support from government. Interventions such as reviewing the mandate and operations of RDB with the aim of improving its efficiency and effectiveness, and provision of tax breaks would strengthen the SMEs by improving their ownership, governance, management and profitability. With specific regard to the guarantee scheme targeted to SMEs, the SMEs still find a challenge of raising own equity, a key requirement by banks before loans are granted, particularly to SMEs. This is a gap that can be closed by capital markets. Affordability of the business development services is another impediment to accessing these series by SMEs.

B.3 Capital Market in Rwanda

Simply defined, a capital market is a place in which financial securities are traded by individuals and institutions/organizations. It can be a primary market where initial public offers (IPOs) take place or a secondary market where IPOs are traded subsequently. Players in capital markets can be divided into investors, issuers and intermediaries. The market intermediaries in Rwanda are the Rwanda Stock Exchange, licensed brokers, dealers, and sponsors. The regulator is the Capital Markets Authority.

Like all formal capital markets, Rwanda's capital market has been established and is governed by legal and regulatory frameworks. Of particular interest in this study are the listing requirements for firms to raise investment funds from the public through capital markets. Below is an overview of the existing legal and regulatory frameworks, the regulator and the stock exchange. The other market players have not been covered because they are still very few.

B.3.1 Capital Markets Authority (CMA)

The Capital Markets Authority (CMA) was established in 2011 under the Capital Market Act of 2011, to guide in the development of Rwanda's capital market. Prior to the establishment of CMA, the Rwanda Capital Market Advisory Council had been established in 2007 to develop the Capital Market in Rwanda, facilitate the trading of debt and equity securities and enable securities transactions, as well as perform regulatory functions over the Rwanda Securities Exchange (RSE).

CMA is responsible for promoting and developing an orderly, fair and efficient capital market. Its mandate includes: implementing government policy on capital markets; preparing draft policies on capital markets; advising government on policy relating to capital markets; and promoting public awareness on the capital market and developing such a market. Other functions include regulating and supervising all capital market activities with a view to maintaining proper code of conduct and acceptable practices; issuing or withdrawing licenses related to capital markets, and, protecting citizens from unfair practices such as misinformation by the market players. In addition to licensing and regulating the RSE, CMA regulates stockbrokers/dealers and any other persons dealing in securities within the national territory.

Listing Rules and Regulations

The RSE listing rules and regulations provide a framework for facilitating trade in a fair and efficient securities market. The listing rules for equity securities are provided in the Table 8.

In addition to the requirements indicated in Table 8, some other conditions that have to be fulfilled include: (i) accounts have to be drawn up and audited in accordance with standards regarded as "appropriate for companies of international standing and repute"; and (ii) evaluation of profit forecasts or the minimum number of shareholders by CMA. While these rules comply with international standards used by other stock exchanges, they are also tailored to suit large companies that are well established and tend to exclude SMEs which can hardly meet such stringent conditions.

Table 8: Listing Rules and Requirements

Requirements	Criteria
Official list	Listed securities
Sponsorship	Every new applicant for listing must be sponsored by a participant who is on the approved list of sponsors
Nominated Advisor	Every issuer must appoint a nominated advisor
Incorporation	Duly incorporated or otherwise established in accordance with laws of Rwanda Registered under companies Act to carry out business in Rwanda
Minimum number of shareholders	50 for equities at time of listing
Minimum spread of shares to the public	25%
Minimum paid up capital	RWF 500 million (US$ 813,008)
Minimum funds to be raised	New Applicant: RWF 500 million (US$ 813,008)
Net Assets	RFW 1 billion (US$ 1.6 million)
Track record	3 financial years but less if issue is underwritten
Application procedures	Letter of application to list and application fee of how much
Disclosure documents	Must be lodged with CMA

Source: RSE rules and regulations, 2008.

B.3.2 Rwanda Securities Exchange (RSE)

Establishment and Role

The Rwanda Stock Exchange Limited was incorporated in 2005 but launched in 2008 with the objective of carrying out stock market operations. The Stock Exchange was demutualized (separation of ownership from trading rights) at the time of registration and is a company limited by shares. Its key roles include providing a platform for raising capital for business expansion, mobilization of savings for investment, and improving management standards of the listed companies.

Operations

Rwanda's capital market has both the primary and secondary markets. Over the Counter (OTC) trading market has also been established and it is a dual trading process. First, members of the OTC trade securities directly with investors and among themselves. Second, open outcry trading sessions are conducted at the trading floor of the OTC market at the CMAC Secretariat every day from 9:00 a.m. to 12:00 p.m. During the designated trading floor sessions at the CMAC, all members must report their transactions conducted from the closure of the previous official trading session up to the time of the next trading session.

Clearing, Payment and Settlement Infrastructure

The Central Bank of Rwanda has implemented a payment and settlement system referred to as the Rwanda Integrated Payment and Processing System. This system has various components aimed at improving efficiency including the Real Time Gross Settlement, the Automated Clearing House, the Automated Transfer System and the Central Securities Depository. The implementation of the payment and settlement system has resulted into adoption of a new settlement cycle referred to as the T+2 for all securities traded. This implies that for all securities traded payment is effected after two days of the transaction on the RSE. At the Nairobi Securities Exchange, the equity and debt securities settlement cycle moved from the previous T+4 settlement cycle as in July, 2011 to the current T+3 settlement cycle. For both Uganda and Tanzania, the settlement cycle is currently T+5. A shorter settlement cycle has the benefit of improving liquidity in the market for listed securities thus making the market more attractive to domestic and foreign investors.

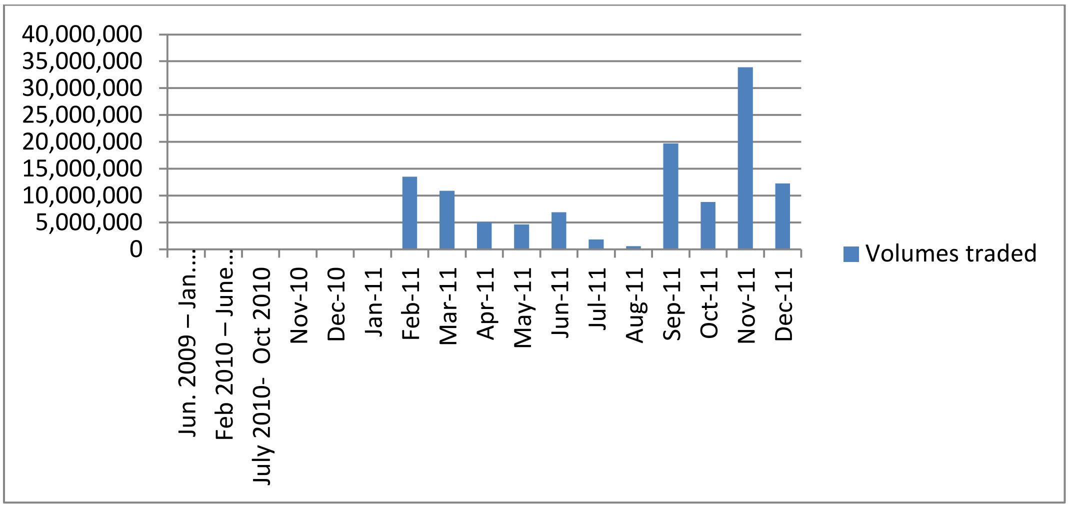
B.3.3 Capital Market Diagnostics

Rwanda's capital market is relatively young compared to the other markets in the region. For instance, the Nairobi Securities Exchange (NSE), Dar es Salaam Securities Exchange (DSE) and Uganda Stock Exchange (USE) were established in 1954, 1996, and 1997 respectively. As of May, 2012, there were 58 companies and 43 bonds listed in the NSE, 17 companies and 13 bonds listed in DSE, and 14 companies and 30 bonds listed in USE.

Rwanda's Stock Exchange was launched in 2008. Currently, the RSE has two domestic stocks - Bank of Kigali and Bralirwa Ltd, and two cross-listings - Nation Media Group and Kenya Commercial Bank. This is in addition to five Treasury bonds and one corporate bond by the Commercial Bank of Rwanda.

While activity has steadily picked up on the equity market from February, 2011, largely on the counters of the two domestic stocks, trading of fixed income securities has been intermittent, slowing down and then picking up, with most of the trading done by commercial banks and a few corporate investors. Figure 11 indicates the volumes of trade in the RSE. It shows that the trade in the stock exchange has been sporadic over the period 2009 and 2011. The market capitalization of the Rwanda Stock Exchange is estimated at US$ 1.6 billion.

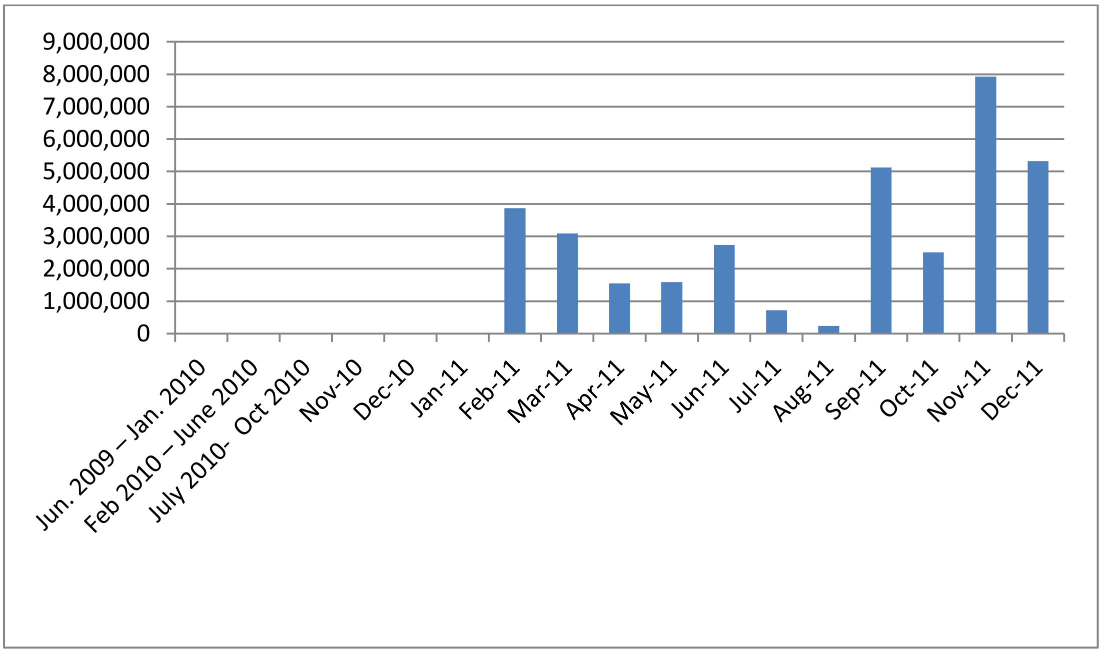
Figure 9: **Turnover on RSE (RWF)**



Source: Capital Markets Authority and author computations

The turnover of the RSE also has fluctuated exhibiting peaks during IPOs. For instance, during the period September-November 2011, the turnover fluctuated between US$ 5 million to US$ 8 million owing to the increased activity following Bank of Kigali's IPO. Similarly, the number of shares being traded has also exhibited the same pattern of increased activity following IPOs as shown in Figure 10.

Figure 10: Turnover of the RSE



Source: Capital Markets Authority and author computations

B.3.4 Awareness and Consideration of SMEs to Use Capital Markets

To determine why some SMEs would resort to capital markets to finance their growth, a logit regression model was estimated. The choice of a logit model is motivated by the fact that opting to use capital markets as a source of financing can be formulated as a binary decision. In this case the dependent variable takes on a value of one if the firm is considering listing on the capital markets and zero otherwise. The explanatory variables include the age of firm, need for external financing, familiarity with or awareness about capital markets, gender ownership of firm and whether the firm is involved in export trade.

An attempt was made to include other variables of importance in the model such as the awareness about the benefits of issuing shares to the public, level of compliance with corporate governance standards as enshrined in the Capital Markets Act and the impact of listing fees on company's decision to list. However, given the limited knowledge about capital markets amongst the surveyed firms, these variables were found to be of low explanatory power and are thus excluded from the estimation. The findings are presented in Table 9.

Table 9: Determinants of Consideration to Use Capital Markets

Independent Variables	Model 1	Model 2	Mode 3
Firm Age	0.036 (0.440)	0.036 (0.730)	0.026 (0.604)
Need for external financing	0.368*** (0.000)	0.408*** (0.000)	0.395*** (0.000)
Awareness of capital markets	0.346*** (0.000)	0.408***(0.000)	0.395*** (0.000)
Male firm ownership			0.125 (0.39)
Exporting firm		0.271** (0.019)	0.255** (0.033)
Number of observations	119	118	110

, * denote 5% and 1% levels of significance. P-values in parenthesis.

The variation of the models 1-3 is based on the gender ownership of the firm or whether the firm is involved in exporting its products. The analysis reveals that the need for external financing plays a role in determining whether the firm would consider using capital markets. This variable is statistically significant for all the models presented in Table 9. Awareness of capital markets and involvement in export trade influence the firms' consideration to use capital markets. The age of a firm does not appear to have a statistically significant relationship with the decision to list on the stock market.

An increase in the firm's awareness of capital market by 1 percent increases the probability of listing on the capital markets by between 32 and 35 percent and this relationship is statistically significant at one percent level (Table 10). Similarly, a firm's participation in the export market increases its likelihood of considering using capital markets by up to 27 percent and this relationship is statistically significant at 1 percent level. As would be expected, an increase in need for external financing to complement internally generated funds or retained earnings increases the chances of the firm's participation in the capital market by up to 40%, all else constant.

Table 10: Marginal effects from the logistic estimation

Independent Variables	Model 1	Model 2	Model 3
Firm Age	0.026(0.577)	0.011 (0.815)	0.023 (0.663)
Need for external financing **Awareness of capital markets??**	0.378*** (0.000)	0.400*** (0.000)	0.385*** (0.000)
Awareness of Capital Markets	0.335*** (0.000)	0.310*** (0.000)	0.322*** (0.000)
Male firm ownership			0.121 (0.437)
Exporting firm		0.273** (0.015)	0.256** (0.035)
Number of Observations	119	118	110

, * denote 5% and 1% levels of significance

B.3.5 Capital Markets-related constraints facing SMEs

There are various capital market specific constraints limiting SMEs from accessing capital markets. These include the listing requirements, limited financial instruments, and limited access to information about SMEs.

(i) ***Listing requirements:*** These include minimum capital requirement of US$ 813,008; a well-formulated business plan; audited financial records; and a generally accepted corporate governance structure. Most SMEs do not meet these requirements, and this limits their chances to list on the stock markets and raise relatively more affordable and longer term capital. This is discussed in B.3.1.

(ii) ***Absence of relevant and robust SME information and information sharing system:*** For equity and debt markets to be developed for SMEs, relevant and complete information about these enterprises has to be accessible. This information could range from management to financials of the company. Currently, information about SMEs in Rwanda is scattered between the companies themselves and banks which finance their operations. The credibility of the information especially on the SME financial activities is also questionable based on the interviews with the banks. This would therefore call for a concerted effort between the government, Capital Markets Authority, financial institutions and SMEs to come up with an information gathering and sharing system. Suggestions for establishing this system are presented under policy recommendations. Access to credible and comprehensive information will contribute to reducing information asymmetry inherent in SMEs. Moreover, for some instruments like the Collateralized Loan or Debt Obligation (CLO) (See Sections C and D), banks may not fully disclose to the investors the risks associated with SMEs and in the process package a CLO instrument with some "bad lemon" SMEs.

(iii) ***Limited capital market instruments.*** Rwanda's capital market is still at its infancy and thus, instruments currently listed and traded comprise shares (equity) and bonds (debt). Venture capital which can partly address the scarcity of equity for SMES through investment in unlisted companies as is the case with the Private Equity and Venture Capital program in Brazil is not widely available in Rwanda. Sections C and D provide detailed discussions and analysis of venture capital, as well as other options such as fund for funds and fiscal incentives that can be established to increase SMEs' access to financing.

(iv) ***Risk profile and high cost of handling of SME financing:*** The relatively smaller loan sizes and the high information costs increase the implementation costs per deal when processing finance. For any financial institution the following costs are considered to be fixed: (i) administrative costs; (ii) legal fees; and (iii) costs related to the acquisition of information about the loan applicant. In the case of SMEs, these costs (per unit of finance requested) are high and thus act as an impediment to lending to SMEs.

B.4 Integration of the EAC Capital Markets and implications for Rwanda's capital market development

In 1997, following efforts to revive the East African Community (EAC), the Capital Markets Authorities of Kenya, Uganda and Tanzania established the East African Securities Regulators Association (EASRA) as a framework for mutual cooperation in the area of capital markets development. After accession of Burundi and Rwanda to the EAC in 2007, the capital markets regulators in these countries also joined EASRA. The East African Securities Exchanges Association (EASEA) was formed in 2004 with a similar mission as that of EASRA.

The main benefits arising from the establishment of EASRA and EASEA are information sharing and facilitating collaboration in harmonization and standardization of regulatory provisions and guidelines, as well as market practices. Through EASRA and EASEA, the EAC capital markets regulators have promoted cross-listing of companies. Several other collaborative efforts are being considered including initiatives to harmonize: (i) listing requirements in accordance with international standards; (ii) capital markets infrastructure such as trading platforms, and payments, clearing and settlement systems; and (iii) investor protection guidelines, among others. These measures are expected to improve the operations and development of capital markets in the region, thereby enhancing opportunities for access to financing from the capital markets.

Upon signing the Common Market Protocol in 2009, the EAC Secretariat in collaboration with the World Bank established the EAC Financial Sector Development and Regionalization Project that became effective in 2011. Among others, the project focuses on harmonization of financial laws and regulations; mutual recognition of supervisors; integration of financial market infrastructure; and development of a regional bond market.

Regarding the harmonization of financial laws and regulations, both EASRA and EASEA under the auspices of the Capital Markets, Insurance and Pensions Committee (CMIPC) of the EAC have agreed to develop Council Directives to guide the development, integration and regionalization of the EAC securities markets. The proposed model of integration of the regional stock exchanges and the regional central securities depositories will comprise linking the national trading platforms and national central securities depositories. However, progress in implementation of these decisions has been hampered by lack of specific provisions in the EAC Treaty mandating the EAC Council of Ministers to issue directives that can be used as a basis for regulating the EAC securities market and allowing for integration of the capital markets infrastructure.

The integration of the payment and settlement systems is also pursued under the East African Monetary Union agenda. The IMF's Fiscal Affairs Department is also designing a project to support establishment of an efficient and effective payment and settlement system within the EAC region. The African Development Bank in partnership with the EAC Secretariat is also designing a programme aimed at ensuring sound national and integrated regional wholesale and retail payment and settlement systems that will strengthen the efficiency of cross-border funds transfers within the five EAC countries. The programme, which is expected to commence implementation in 2013, will also strengthen the financial sector regulatory and legislative capacity in the EAC partner states.

While full integration of the EAC securities markets will take time to materialize, the current efforts are important for strengthening the markets and building investor confidence. They are also acting as catalysts for capital markets development in the various jurisdictions, and therefore are likely to have a positive impact on the widening and deepening of Rwanda's capital markets. Access to a wider market and initiatives to simplify listing requirements for SMEs will create opportunities for the increased access to financing.

B.5 Initiatives to Address Constraints Facing SMEs

A variety of initiatives – scanned below - to support Rwandan SMEs has come from the government, Development Partners (DPs), financial and non-governmental organization (NGO) sectors.

B5.1 Enabling Policy Environment and Infrastructure

Before the adoption of SME Policy in 2010 (Box 1), the policy environment was oriented towards large companies. The Government has acted by developing an SME development policy under the Ministry of Trade and Industry and the 2011/12 SME Development Action Plan in addition to initiatives to improve the ICT infrastructure in the country. The vision of the policy is to create a critical mass of viable and dynamic SMEs significantly contributing to the national economic development and the mission is to stimulate growth of sustainable SMEs through enhanced business support service provision, access to finance and the creation of a conducive legal and institutional framework. The objective is to foster job creation and an increase in the tax and export base through the promotion of competitive new and existing SMEs.

There have been several recent policies developed by the GoR that focus on cluster development for value-addition sectors to increase Rwanda's international competitiveness, create more opportunities, expand the supply of skilled people and technology, expand the local supplier base, increase efficiency and productivity and foster innovation. The SME policy supports these policies for SME clusters in a particular field that can be linked by commonalities by improving productivity/efficiency and by stimulating and enabling innovation, facilitating commercialization and new business formation. Government is also working towards improving physical infrastructure such as road network, and power supply, as well as other SME related policies.

Box 1: SME Policy

The vision of the policy is to create a critical mass of viable and dynamic SMEs significantly contributing to the national economic development. This will involve stimulating growth of sustainable SMEs through enhanced business support service provision, access to finance and the creation of a conducive legal and institutional framework.

The main objective of the policy is to foster job creation and an increase in the tax and export base through the promotion of competitive new and existing SMEs mainly in value added sectors. In order to achieve this objective, the Rwanda SME policy outlines the following five policy objectives.

1. Promote a culture of entrepreneurship among Rwandans
2. Facilitate SME access to development services including:
- Business development services
- Access to local, regional and international markets and market information
- Promote innovation and technological capacity of SMEs for competitiveness
3. Put in place mechanisms for SMEs to access appropriate business financing
4. Simplify the fiscal and regulatory framework for SME growth
5. Develop an appropriate institutional framework for SME development.

The policy also ensures startups can be sustainable and struggling SMEs find ways to grow. Start-ups would receive particular support in this policy through entrepreneurship training and special start-up funding opportunities. Struggling SMEs will benefit from an improved and simplified regulatory environment and from the opportunity to work in clusters promoted in these policy objectives. Established SMEs on the other hand will reap particular benefits to expand their market by accessing market information and innovative technologies.

B5.2 Demand Side Initiatives

The most prominent initiative was the former Centre d'Appui aux Petites et Moyennes Enterprises (CAPMER) whose major mandate was to provide training, advice and technical support to SMEs. In 2009, CAPMER was integrated into the RDB with the objective of combining its mandate with export and investment promotion and general private sector development services. The RDB was established to coordinate and combine all services and support for Rwandan private sector development including investment and export support, business registration, environmental and tax advice, free trade zone and IT development and cluster specific programs such as tourism development. Thus the RDB provides specific support to SMEs, including training programs, networking and moveable asset registration, in addition to working to improve the overall business environment in Rwanda.

Specific agencies have also been created to support the development of Rwandan cooperatives, whose business activities are similar to SMEs. The Rwanda Cooperative Agency (RCA) works to train and regulate cooperatives in tandem with the Rural Small/Micro Enterprises Promotion Project

Phase II (PPPMER-II), a project in MINICOM, mandated to provide marketing and other support to cooperatives and SMEs in rural areas.

Supported by the GoR, though a private sector member based institution, the Private Sector Federation (PSF) was formed to represent the interests of the private sector vis-à-vis the GoR. It collects information from private sector actors, provides training and support to these actors and advocates for their needs. PSF also runs a network of BDS under a new model of independent BDS providers within the framework of private/private partnerships.

Development Partners (DPs) have contributed as well to the development of SMEs. For example, Deutsche Gesellschaft für Technische Zusammenarbeit (GIZ) and the World Bank have been involved in skills training and entrepreneurship development. International Fund for Agricultural Development (IFAD) has also been involved through projects like PDRCIU, PDCRE and PPPMER, which have been operational over the last five years and have directly contributed to the development of agricultural and non agricultural rural SMEs.

B5.3 Supply Side Initiatives

In 2007, the Ministry of Finance and Economic Planning (MINECOFIN) set-up a Financial Sector Development Program with the objective of supporting increased access to finance, capital markets development, regulation of non-bank financial institutions and the improvement of the payment systems. In order to expand access to financial services to the rural areas, the GoR licensed 416 Umurenge (village level) SACCOs to grant loans of up to 40% of their deposits. Measures are being developed to improve the structure and framework for supervision of these SACCOs. In 2011, legislation regulating Capital Markets and establishing the Capital Markets Authority were gazetted. The CMA is contemplating amendments to its guidelines to allow SMEs to list on the RSE as a way of increasing their scope of mobilizing long-term financing.

Similarly, the CMA has kicked off a country wide campaign to draw Rwanda's 416 Umurenge SACCOs to the capital market to help reduce over-reliance on bank deposits as investment channels and to boost activity at the Rwanda Stock Exchange (RSE). This initiative is also expected to attract investors at the RSE to participate in the secondary market, a segment that institutional investors—with the exception of the Rwanda Social Security Board—have shunned for years. Currently, SACCOs deposits are banked with commercial banks thus attracting minimal deposit interest rates. Investing these deposits in the capital market would provide them an opportunity to diversify their investment and also attract higher returns. Moreover, the capital market has a competitive edge as income/dividends through the RSE attract a lower withholding tax of five percent, while interest incomes on deposits in banks are subject to 16 percent withholding tax.

Regarding development finance institutions and programmes, a significant proportion of Rwanda Development Bank's (BRD) lending activities are tailored to SMEs and cooperatives. The products provided include direct financing to SMEs and cooperatives, refinancing to microfinance institutions, equity financing and equipment leasing through agricultural and other loan funds. Several development partners support various programmes aimed at increasing access to finance, skills and entrepreneurship. USAID has an SME guarantee fund managed by the Bank of Kigali.

Between 2005 and 2011 there has been a significant increase in the number of banks especially those that are foreign owned which are six in number out of the 11 commercial banks. The banking sector is currently composed of eleven commercial banks and three microfinance banks. The banking assets doubled between the period 2006-2010 to RWF 1.1 trillion (US$ 1.8 billion) and a decline in non-performing loans from 26 to 12 percent was registered. The banking system remains concentrated with three banks accounting for 60 percent of the assets, loans and deposits while both loans and deposits are concentrated in a few corporate clients. This banking sector is supported with 109 MFIs, 8 insurance companies and 40 pension funds. The 2012 Finscope survey indicates that over 70 percent of the population has access to either formal or informal financial services, an indication that the government's initiatives and support from development partners have had a positive impact on financial sector development.

A Rwanda SME Fund with an estimated US$7.2m in loanable funds was launched in July 2011 by the Business Partners International Rwanda, and financed by the IFC, World Bank Group, the Rwanda Enterprise Investment Company (REIC), Dutch NGO Stichting DOEN, and Business Partners International. The objective of this initiative is to provide access to funding and technical assistance to SMEs, thereby increasing employment and fostering local entrepreneurship in Rwanda.

C. REGIONAL AND INTERNATIONAL EXPERIENCE OF SME ACCESS TO CAPITAL MARKETS:

Section B presents and discusses, among others, the key constraints that SMEs face in accessing finance from the banking sector, the capital markets and other sources. There are several initiatives being undertaken within the region and beyond to enable SMEs access financing from various sources, including active participation in the capital markets. This is after a realization that bank financing alone which tends to be more costly for SMEs is not sufficient for the growth of this sector. This section presents the experiences with private equity and venture capital in Brazil, Tunisia and Kenya, experiences with fund of funds in Israel, South Korea and Ghana, and the establishment of alternative investment market segments in the capital markets for SMEs in South Africa, Kenya, Uganda and Tanzania.

C.1 Experiences with Equity and Venture Capital

Venture capital (VC) originated in the United States during the 1950s as a response to the need for financing for SMEs. The risks inherent in financing entrepreneurs without an established track record or collateral in developing new products make them less preferred customers to the traditional commercial or investment banks. Venture capitalists provide equity-type financing designed to allow them to participate in the investments with high growth potential with a view to supporting enterprise growth and also diversifying their own risk portfolios. Venture capitalists also seek to participate actively in the enterprise, for example as members of the board of directors and/or by reserving the right to appoint and replace key executives.

Since their inception in the United States, equity and venture capital funds have been adopted in other countries to meet the specific needs for investment financing, but with limited success in some countries such as Kenya and Tunisia and success in countries such as Brazil.

C.1.1 Equity and Venture Capital in Kenya, Tunisia and Brazil

In Kenya, Equity Capital was established in 1986 to invest in the equity of unquoted companies. It was funded in part by soft loans from USAID and grants to support management costs. However, challenges in finding promising equity investments in either small enterprises many of which were unwilling to accept outside shareholders, or larger firms which could raise bank financing, led the managers to abandon VC in favor of providing fund-raising services on a fee-earning basis.

Tunisia's first VC institution, la Société de Participations ET de Promotion des Investments (SPPI), was established in 1990. However, during the same period, the major Tunisian development banks were effectively undermining the potential demand for external risk capital. The development banks typically provided medium- and long-term loans of up to 70% of total financing requirements, even for start-up enterprises. These banks also provided equity funding in the form of an interest-bearing redeemable security with a repurchase contract. These policies resulted in entrepreneurs financing new business ventures with around 10 percent of real risk capital.

In Brazil, several SMEs have been supported under the Private Equity and Venture Capital (PE/CV) Program to list in the capital markets.

Founded in 2000, the PE/VC in Brazil program is a joint initiative between the Brazilian Association of Private Equity and Venture Capital and the Brazilian Trade and Investment Promotion Agency to create a bridge between international investors and Brazilian fund managers and companies to promote and develop long-term investments in Brazil. PE/VC firms are financial intermediaries that perform investment in equity or quasi-equity instruments of unlisted companies, including SMEs.

How Private Equity & Venture Capital works in Brazil

- PE/VC managers act as catalysts for growth of companies before they enter stock markets. They exercise careful selection, monitoring and governance that mitigate the uncertainty and risks of investing in such companies.
- PE/VC firms provide more than money. After a careful screening process, they usually require a seat on the board of directors of the companies in which they invest. During the long-term relationship, PE/VC managers provide portfolio companies with strategic advice and access to their valuable business network.
- PE/VC investments cover different stages of business development, from financing an idea or invention (seed capital), to the acquisition of significant stakes in existing corporations (buyout), to start-up and expansion financing for high-growth SMEs. Typically, investments in early stage companies (i.e. seed capital, start-up and expansion stages) are considered as the venture capital (VC) segment of the PE/VC industry.
- Due to the rigor of the PE/VC investment and monitoring processes, which include detailed due diligence and the adoption of corporate governance guidelines, PE/VC recipients obtain a seal

of approval that reduces the risks perceived by their suppliers, customers, external finance providers and employees.

- PE/VC firms exit their investments by selling shares. Sometimes, through an agreement, exits take place in the stock exchange indicating that the invested company has successfully graduated to the stage of receiving investment from other institutional investors and individuals.

The PE/VC-backed companies represented close to half the amount raised by initial public offerings (IPOs) in the stock exchanges in Brazil between 2004 and 2006 (Ribeiro, 2007). Despite its successes in Brazil, PE/VC is still very much restrained by the challenging local economic and institutional environment, including unsuitable legal and fiscal system and bureaucratic procedures.

C.1.2 Lessons for Rwanda

Kenya	Tunisia	Brazil
It is important to ensure that there are promising equity investments in either small enterprises who are willing to accept outside shareholders, or larger firms that can raise bank financing.	Institutions such as development banks should not also be set-up to provide similar services to SMEs when a venture capital fund has been established.	○ PE/VC initiative can be a private-public initiative. ○ PE/VC managers can act as catalysts for growth of companies before they enter stock markets. ○ PE/VC provides more than money. For instance, it may require a share in the company it is investing in and provide strategic advice and access to valuable business network. ○ PE/VC exercises careful selection, monitoring and governance that mitigate uncertainty and risks. ○ Through an agreement, PE/VC exits take place in the stock exchange, which promotes listing of SMEs in the stock markets. ○ The success of PE/VC is also dependent on local economic and institutional environment, including suitable legal and fiscal system and efficient bureaucratic procedures.

C.2 Experiences with Fund of Funds

C.2.1 The YOZMA Fund of Funds in Israel

Box 2: The YOZMA Fund of Funds Success Story

Since the 1990s Israel has been the most vibrant high technology cluster outside the United States. Several complementary factors have contributed to this including: a highly adaptive innovative entrepreneurial culture, significant R & D spending and a highly skilled immigration wave from the former USSR. In addition, the government recognized the importance of the technology sector to the economic growth and welfare of the country.

As a result, in 1993, the government decided to establish a fund of funds program called Yozma with a seed capital of US$100 million. Using this seed capital and in partnership with leading VC investors, 10 venture capital funds were established, each with about US$25 million. The with the government contributed 40 percent and the foreign investors contributing the remaing 60 percent, which means that the total venture capital was US$250. The program was designed in such a way that foreign investors had an option to buy out government's share within a period of five years. A purchase of government shares signaled the success of the program.

From the Yozma initiative, 15 investments that were made, out of which 9 have enjoyed successful exits through IPOs or acquisition. In addition, several international venture capital investors like Advent, MVP, CMS, Walden, Daimler Benz, DEG, Oxton and Kyocera were attracted to the fund.

With the increased foreign interest, the private investors excercised their option and bought out the government's share in 9 out of 10 funds.

C.2.2 Korean Fund of Funds

Korea's venture industry started in 1974. From then, the Korean government directly invested in venture investment funds. In 2004, the Korean government announced the "Fostering Venture Companies" Initiative to address several challenges that plagued the industry including diminishing venture capital investment, the dissolution of many venture funds in 2004, and the absence of a stable and unified source of venture investment. This announcement was followed by the establishment of the Korea Fund of Funds (KFoF) in 2005. The fund of funds (FoF) is fully government funded but it allows the fund manager to evaluate, select, and distribute capital to a number of funds based on high standards and with a significant level of independence.

Advantages of FoF over the previous government involvement in venture investment funds:

i) It meets public interest and operates more efficiently. As a result, the Fund is more profitable. However, the KFoF is not completely independent from government influence. For example, the KFOF fund manager can be asked to allocate a large portion of the fund's assets to sub-funds in support of a particular Government policy as opposed to following conventional business benchmarks for selecting beneficiaries.

ii) Government support ensures that the fund is still able to finance the venture capital market even when the economy is in recession. Therefore, it can play a role in revitalizing the market during times of economic contraction.

iii) The venture capital market is more transparent because of high standards applied in the selection of projects invested in and prudent management of sub-funds.

iv) The fund is a stable investment source to venture firms especially during economic downturns when private investors tend to invest in safer securities like fixed income.

By 2007, the KFOF had invested a total of US$ 278 million dollars (Table11). The KFOF has also encouraged institutional investors to participate in the venture capital industry.

Table 11: Investment in Korea Fund of Funds

Year	# of venture investment funds in which the KFoF invested	Volume of venture investment funds in which the KFoF invested (US $ million)	Investment of KFoF (US$ million. won)
2004	7	241	52
2005	17	360	110
2006	21	461	115
Total	**45**	**1,063**	**278**

Source: Jae-Ha Park, Byung-Chul Lim, Jung-Han Koo, 2008

C.2.3 VENTURE CAPITAL TRUST FUND OF GHANA

The Venture Capital Trust Fund was established in 2004 by Government of Ghana to provide low cost revolving financing to SMEs. The vision is to provide businesses with enough resources to create jobs, increase revenue (through taxes), and ultimately add to the pool of funds available for down-stream business investments. The trust fund has partnered with the private sector to establish various Venture Capital Finance Companies (VCFCs) whose sole authorized business is to assist in the development of SMEs by making available for their use, equity, quasi-equity and credit financing. SMEs are also provided with technical assistance to boost management expertise and productive capabilities.

Applications for funding are made to any of the venture capital finance companies by any individual or business entity that is Ghanaian and needs working or start-up capital. Depending on the expertise available in the potential investee company, that company may be provided with management and or other technical assistance to boost the company's capacity to more effectively utilize the requested funds. The investment package administered to the beneficiary SME may vary depending on the ownership structure.

Currently the priority sectors targeted are ICT, agriculture & agro-processing, tourism and pharmaceuticals. These priority sectors have the potential to benefit from about 55 percent of the total funds available. Venture funds are not limited to only the priority sectors, all sectors of the economy except direct imports to sell, can receive funding.

The basic requirements for accessing the fund include:

- A comprehensive three-year business plan ;
- Incorporation papers for SMEs that are incorporated;
- Audited financials for past 3 years for existing business;
- Tax Clearance Certificate;
- A minimum of 51% equity contribution from the business owner (not necessarily cash);
- No collateral is required but a good viable project; and
- Any other information that may be requested.

Businesses are encouraged to talk to any of the VCFCs for advice on preparing the required documentation. In practice, the Trust Fund is a fund of funds and operates through institutional partnerships by means of joint venture arrangements with VCFCs. VCFCs are managed by fund managers and are licensed by the Securities and Exchange Commission (SEC). Fund managers are responsible for deal sourcing, selection, monitoring and exit of Fund investments. However, final investment decisions rest with the Investment Committees (ICs) that are made up of representatives of investors and independent professionals appointed by the Fund's Board of Directors.

The maximum funding limit is 15% of total capitalization of a VCFC and a minimum of USD25,000.

Ghana's venture capital trust fund boosts of several achievements including:

- Leveraged its seed funding of GH¢22.4 million (US$ 11.2 million) to create additional GH¢40.2 million (US$ 20.1 million) from the private sector in a Public Private Partnership, totaling to GH¢62.6 million (US$31.3 million);
- Trained and developed the capacity of three local indigenous Fund Management companies;
- Provided training and capacity building support to the pool of VCTF Funds' portfolio companies;
- As part of its capacity development and public awareness focus, provided education and public awareness on private equity and venture capital's role in easing access to finance in Ghana;
- Financed 3,500 farmers directly, each year for three years running; and
- Created Two thousand Five Hundred (2,500) direct jobs and Four Thousand Five Hundred (4,500) indirect jobs across all sectors of the economy.

C.2.4 Lessons for Rwanda

Israel Fund of Funds	Korea Fund of Funds	Venture Capital Fund of Ghana
○ Government initiative ○ Clear program design with in-built incentive structure in terms of option to buy out government share in a fixed time period ○ Presence of enterprises with growth potential ○ Existence of willing investors ○ Presence of an active capital market	○ Fully government funded initiative which ensures that the fund is able to finance the venture capital market even when the economy is in recession. ○ Fund manager evaluates, selects, and distributes capital to a number of funds based on high standards and with a significant level of independence. ○ The fund meets public interest and operates more efficiently. As a result, the Fund is more profitable.	○ Government initiative partnered with the private sector ○ SMEs are also provided with technical assistance to boost management and technical expertise and productive capabilities. ○ Fund managers are responsible for deal sourcing, selection, monitoring and exit of Fund investments but final investment decisions rest with the Investment Committees (ICs) made up of representatives of investors and independent professionals appointed by the Fund's Board of Directors.

C.2.5 Enabling Factors for a Successful Venture Capital Industry

Successful VC operations have certain basic common features. These can be regarded as essential conditions that need to be fulfilled when setting up new VC institutions.

Growth sectors: The success of VC depends on finding opportunities for investment with high growth potential within its target market in a country. Given the need for highly selective screening of business propositions to generate a well-balanced and diversified portfolio, the first essential condition for any new VC fund is the availability of a substantial "deal flow". While for the case of Rwanda it may not necessarily be able to create or support high-technology enterprises that have been characteristic of VC financing in the United States, they can offer attractive market niches based on specific comparative advantages for instance in agribusiness, mining, among others or the application of new technologies or deregulation.

Entrepreneurial quality: entrepreneurs with business judgment and managerial skills are also essential to manage the transformation of the deal into a successful enterprise. The ability of the entrepreneur to focus on a single business opportunity, to think strategically about the issues critical to its success, and to ensure the preparation of adequate financial information, is very critical. The VC manager can assist and guide the entrepreneur but cannot substitute for him.

Equity culture: entrepreneurs need to understand and accept the basis of the business relationship with equity investors. This relationship needs to be based on the principles of common interest, transparency in the sharing of information, participation in major decisions and equity in the distribution of profits. Changing attitudes to achieve these virtues is a difficult and time consuming undertaking. Thus, a VC firm can have an important educational role in explaining and nurturing the development of constructive relationships between entrepreneurs and investors.

Professional skills: successful international VC managers typically have broad management experience, often including marketing, technical background, as well as financial expertise. However, such managers are scarce, especially for work in difficult environments, but they are invaluable. Institutional investors generally require that the managers of funds in which they invest can demonstrate a proven track record. A good venture capitalist will learn through experience, but this takes time and the poor performance of inexperienced managers will impact on the initial results of a VC institution.

Local knowledge: VC managers also need to have close knowledge of the specific markets in which they operate. An up-to-date understanding of local conditions and a network of contacts with prospective investee businesses are critical to generating deal flow, and to assessing the specific factors that will determine growth potential and to identifying the right method and timing of exits.

Efficient and incentive-based remuneration: To attract well-qualified managers and to concentrate their attention on maximizing returns on invested funds, the remuneration of VC managers needs to be structured to include strong profit-related incentives based on widely-accepted industry standards. The cost of these remuneration packages also has a significant impact on determining the minimum economic size for a VC fund (generally regarded as a minimum of US$20 million). To accommodate this cost structure in Rwanda, the fund managers may operate on a regional basis with responsibilities spanning several operations in the region and/or a portion of the management costs may be supported by development partners.

Business environment should be supportive of productive private sector investment and of equity financing. Apart from macroeconomic policies, the system should provide for: Legal and regulatory framework designed to support the creation and operation of VC funds; the protection of minority shareholder's rights; the transfer of share-ownership and the speedy and equitable settlement of commercial disputes. A tax regime that ensures a transparent and equitable treatment of company profits, dividends and capital gains, and the tax-free pass through of returns to a VC fund and its investors is necessary.

Exit mechanisms: The ability to liquidate investments freely and with substantial capital gains is critical to the success of VC. Exits are clearly easier where there is an active stock market. The limited choice of "exit" options for divestiture in many developing countries makes it difficult to incentivize VC investors. While the stock market is now in place in Rwanda, achieving the required depth and liquidity to absorb flotation of new ventures is not expected in the immediate term.

***Service Providers and* financial infrastructure**: VC operations also need the support of efficient service providers including accountants, lawyers and bankers as well as communications facilities.

Institutions providing VC also need to be structured to ensure flexibility of operations while meeting the interests of the investors providing the funds. To achieve this, the following two factors are important. First, legal form and domicile: a VC institution should be established under a legal jurisdiction which allows efficient incorporation. Second, is the flexibility in raising funds and discretion in defining investment policies and opportunities. Moreover, institutional investors often require that fund vehicles that deal in illiquid, unquoted investments are established with a finite life (7 to 10 years) at the end of which, all such investments should be liquidated and the funds returned to investors.

C.3 Establishment of Alternative Investment Market Segments

As discussed in Section B, some of the listing requirements are tailored to large capitals which tends to lock out SMEs from accessing capital markers. To address these concerns, a number of countries have opted to establish alternative investment markets for SMEs with less stringent regulations that mainly focus on listing rules. This sub-section examines experiences from South Africa, Kenya, Uganda and Tanzania to provide lessons for Rwanda.

C.3.1 AltX for SMEs in South Africa

AltX is an alternative market in Johanesburg Stock Exchange (JSE) established to cater for SMEs. Launched in 2003, Altx aims to provide a platform for SMEs to raise capital and list on the stock exchange so to liquidate debt and build cash reserves. In addition to AltX's less stringent listing requirements (see Table 11), JSE in partnership with the Department of Trade and Industry and the National African Federated Chamber of Commerce (Nafcoc) have drawn up a programme that continuously educates the SMEs on various aspects of the capital markets such as listing requirements and share ownership. This partnership also creates awareness about the JSE and provides other forms of support to SMEs such as training for their directors.

Table 12: Listing Requirements for AltX Market in South Africa

Listing Requirements	Main Market	AltX for SMEs
Minimum Share Capital	R25 million	R2 million
Profit History	3 years	None
Pre-tax Profit	R8 million	N/A
Number of shareholders	300	100
Sponsor/Designated Adviser	Sponsor	Designated Adviser
Publication in Press	Compulsory	Voluntary
Special Requirements	N/A	Appoint Financial Directors
Annual Listing Fee	0.04% of average market capitalization with a minimum of R26,334 and maximum of R121,700	R22,000
Education Requirements	N/A	All directors to attend Induction program

Source: http://www.jsenews.co.za retrieved on 8 September, 2012

Since its launch in 2003 and listing of the first company in January 2004, the number of SMEs listed by 2009 was over 70 and several companies were in the pipeline to be listed. As of 2009, six companies had been delisted as a result of mergers and graduation to the main market (http://www.jsenews.co.za retrieved on 8 September, 2012).

C.3.2 Small and Medium Enterprises Exchange in Kenya

The Small and Medium Enterprises Exchange (SMEX), a listing for SME's in the Nairobi Stock Exchange, is set to commence operations in 2012 with less stringent listing requirements than those at the Nairobi Stock Exchange (NSE). To enable this to happen, two draft laws on the Nairobi Stock Exchange (NSE), Nominated Advisers rules 2011 and the SMEX Public Offers Listing and Disclosure (POLD) requirement regulations 2002 have been revised. The listing entails Growth and Enterprise Market Segment (GEMS) which will allow SMEs to raise funds through either a rights issue or corporate bond, without necessarily selling shares to the public at the time of listing and a real estate investment trusts (REITs).

C.3.3 Alternative Investment Market Segment in Uganda

Raising capital by issuing securities to the public in Uganda's capital markets requires either the company or the securities to be listed on the Uganda Securities Exchange (USE). Listing is governed by the Listing Rules of the Exchange, the provisions of the Capital Markets Authority Act, the Capital Markets (Prospectus Requirements) Regulations, 1999 and the Companies Act, Cap 110 Laws of Uganda 2000.

To enhance SMEs access to capital markets in Uganda, USE established in 2009 an Alternative Investment Market Segment (AIMS) under the equity section (Table 13). The AIMS is a platform built on a simplified listing framework with less stringent requirements than the Main Investment Market Segment (MIMS).

Listing Requirements Specific to AIMS/SMEs:

- The Company must be a public company limited by shares under the Companies Act, Cap 110.
- The minimum authorized, issued and fully paid-up capital of the Company must be at least Ug. Shs 200 million (Two hundred million Uganda Shillings Only), equivalent to US$80,000.
- The net assets of the Company must be valued at a minimum of at least Ug. Shs 400 million (Four hundred million Uganda Shillings Only) prior to raising capital, equivalent to US$160,000.
- The Company must submit a business plan with a clear indication of its prospects.
- Where a company opts to raise capital through equity, the minimum number of shareholders immediately following the closure of the initial public offering shall be one hundred.
- The Company should have published audited accounts for at least two years.
- The Company must have suitably qualified senior management for at least one year prior to the application to raise capital, none of whom has committed an offence considered inappropriate for the management of a Company.
- No director of the Issuer should have in the preceding two years been adjudged bankrupt, had any winding up proceedings pending or threatened against it (in the case of a company), been

convicted of a felony within ten years prior to the application, or been temporarily or permanently prohibited by a lawful order from acting as director of a public company.

- The controlling shareholders should make an undertaking to the Exchange to hold onto their shares for a period of at least 24 months following approval of the application for listing.
- At least one third of the Board should consist of independent non-executive directors.
- The Company must comply with detailed disclosure requirements for the AIMS/SME segment as specified in the Listing Rules.

Table 13: Comparison of AIMS and MIMS for Uganda Stock Market

Listing Requirement	MIMS	AIMS
Company listed by shares and incorporated or registered	Required	Required
Share Capital	50,000 currency points	10,000 currency points
Audited Accounts	Five years	Two years
Profits and growth potential	Positive profits after tax for at least 3 of last five years	Existence in same line of business for 2 years
Management	N/A	Qualified senior management with relevant experience and at least one third of issuers board of directors consist of non-executive and independent directors
Shareholders	20 percent of shares held by not less than 1000 shareholders after listing	Minimum number of shareholders immediately after listing is 100

In addition, the USE has pledged to ensure that potential and listed SMEs access all the information and support required to make the right investment decisions including training to help in deciding whether to raise capital on the USE. USE also disseminates information on the benefits of listing and the pre-listing and post-listing obligations, among other things.

C.3.4 Enterprise Growth Market in Tanzania

In 2012, Tanzania ratified amendments to two regulations to pave way for setting up of the Enterprise Growth Market (EGM) targeting the SMEs' participation in the capital markets. The ultimate objective is to create a market segment within the Dar es Salaam Stock Exchange, with less stringent issuance and listing rules of the existing equities market segment. The equities market will thus become two tiered: EGM being the less stringent, more easily accessible, and therefore, a more risky segment aimed at start-ups and SMEs; and MIMS as a more stringent and less risky market segment for larger and more established enterprises. The EGM is also expected to be the market segment for nurturing enterprises and organizations to maturity in readiness for MIMS listing.

The listing requirements under the EGM:

- Must be incorporated as a public company under the Companies Act;
- No minimum capital required;
- No minimum track record required;

- No minimum profitability track record required;
- If the company has no track record; the promoters will not be allowed to exit for three years from listing;
- The company must appoint a Nominated Advisor for the duration of its listing on EGM;
- Must have 5 years business plan and an independent technical feasibility report prepared by the Nominated Advisor.
- Minimum number of shareholders is 300;
- Public shareholding in EGM should be at least 20% of the issued shares;
- Must prepare a Prospectus to be approved by the CMSA;
- Publication of an abridged Prospectus in the press;
- Must have an Audit Committees as per the guidelines on corporate governance; and
- The Memorandum and Articles of Association should provide for the observance of good corporate governance.

Table 14: Listing Requirements for Dare salaam Stock Exchange

Listing Requirement	MIMS	Enterprise Growth Market
Track record	3 years	Not required
Profitability Track Record	Profits after tax attributable to shareholders in at least two of the last three financial years.	None
Issued and paid-up capital	At least TZS 500 million	TZS 200 million
Profits and growth potential	Positive profits after tax for at least 3 of last five years	Existence in same line of business for 2 years
Incorporation Status	Issuers must be incorporated in Tanzania as public companies	Issuers must be incorporated in Tanzania as public companies
Net Tangible Assets	At least TZS 500 million.	The company shall have at least 50% of its net assets situated within Tanzania.
Issuer Type	All companies from different economic sectors.	Growth companies of all sizes.
Issuer Type	All companies from different economic sectors.	Growth companies of all sizes.
Public shareholding spread	At least 25% of the listed shares must be held by public. In this case public shareholders will own not more than 1% for individuals and not more than 5% for institutions.	At least 20% of its shares must be held by public.
Minimum number of shareholders upon listing	Not less than 1000 shareholders excluding employees of the Issuer.	At least 100 shareholders

C.3.5 Lessons for Rwanda

South Africa	Kenya	Tanzania	Uganda
Less stringent listing requirements than those of JSE. Additional support such as training is provided to SMEs by JSE in collaboration with Industry Association and Government. By 2009 over 70 SMEs had listed in JSE and several companies were in the pipeline to be listed. Six companies had been delisted as a result of mergers and graduation to the main market	Less stringent listing requirements than those at the Nairobi Stock Exchange (NSE). No listed SME	Less stringent issuance and listing rules for the EGM than of the existing equities market segment. No listed SME	Simplified listing framework with less stringent requirements than the Main Investment Market Segment (MIMS) Additional support to SMEs by USE has been pledged to ensure that potential and listed SMEs access all the information and support required to make the right investment decisions. No listed SME

As summarized in the above table, simplified or less stringent listing requirements for Uganda, Tanzania and Kenya has not resulted into listing of SMEs. For Kenya and Tanzania, it can be argued that it is too early to make this conclusion. However, for Uganda, this suggests that simplifying the listing requirements is not a panacea. A holistic approach to dealing with constraints facing the SMEs needs to be designed as is the case with South Africa's experience. For example, in addition to simplifying the listing requirements, there should be other programmes such as education and skills development, creation of awareness to change mind-sets of SMEs so that the SMEs do not continue to perceive stock markets as markets for big firms only, and provision of alternative financing options such as venture capital and/or asset-backed securities.

C.4 Experiences of Asset Backed Securities

Securitization is the conversion of receivables and cash flow generated from a collection (pool) of financial assets such as (mortgage loans, auto loans, credit card receivables and other assets) into securities that are backed by these assets. Asset securitization is the issuance of a debt instrument backed by a revenue producing asset of the issuing company. Asset securitization involves producing bearer asset-backed securities, which can be freely traded and which are secured by a portfolio of receivables. In order to ensure marketability, the instrument must have general acceptability as a store of value. Hence, the security is generally either rated by credit rating agencies, or is guaranteed by an independent guarantor.

C.4.1 Experience of Asset Backed Securitization in South Africa

The history of securitization in South Africa dates back to 1989 when the first securitization, issue was a R 250 million mortgage-backed security was issued by the Allied Building Society (United Bank of South Africa Limited). Securitization continues to play a role in South Africa as shown by the recent listing of the first securitization company (Sotta Securitization International) on the Johannesburg

Stock Exchange in November 1998. The deal was worth R 120 million in March 1999 with Lyons Property Company, mandated to securitize Lyons's lease agreements over five properties.

South African Securitization still faces some major obstacles in the securitization market. The first obstacle is that investors still prefer to invest in listed companies with established track records. Second, there are legislative and accounting problems, because asset backed securities transactions are off-balance sheet, which are considered more risky than other instruments such as mortgages. Third, there is no separate legislation for securitization, and no special entity, other than banks that are allowed to issue debt paper to fund operations. Thus, the securitization process by a Special Purpose Vehicle, for instance one with a focus on SMEs, must be routed through a bank. Fourth, 18 banks have sufficient capital in their balance sheets, and want to grow rather than sell off assets.

C.4.2 Experience of Asset Backed Securitization in South Korea

Prior to the Asian crisis of 1997, some securitization deals were negotiated in Korea, but the activity in securitization market commence started picking up during 1999. One of the most high profile transactions took place in December 1998 by Korean Exim Bank. The bank was engaged in financing overseas operations of Korean companies and had receivables in foreign exchange. The bank securitized $ 265 million of receivables representing promissory notes drawn by its clients. The securities in that transaction were rated AAA.

Another initiative came from the Korean government as it set up a mortgage securitization body, on the lines of Fannie Mae, called Korea Mortgage Corp. (KOMOCO), which is a joint venture with International Financial Corporation (IFC) and some domestic banks. KOMOCO is expected to issue MBSs Mortgage Backed Securities (MBS) collateralized by mortgage loans acquired from National Housing Fund.

One of the main impediments that reduced the activity in the securitization market was the absence of applicable law. The government responded by enacting the law named Asset Backed Securitization law in 1998. The law was primarily intended to govern securitizations originated by financial institutions, including government-promoted financial institutions such as Korea Development Bank, Korean Exim Bank, Industrial Bank of Korea, licensed financial institutions, merchant banks, insurance companies, securities companies, and trust companies, etc. The law recognizes the activities of the Special Purpose Vehicles (SPV) as limited liability companies to manage the securitized assets. The securities to be issued by the SPV may be in the form of investment certificates, bonds, trust certificates, etc.

C.4.3 Spanish Securitization Structure and related Government guarantees

Since 1992, Spanish securitization laws explicitly permitted the creation of special purpose investment companies established to purchase mortgage loans. In May 1998, the scope of the assets permitted for investment was widened to include, inter alia, SME loans. These laws have facilitated True Sale transactions in Spain, which is the model used for all of Spain's SME securitizations. The most important initiative for SMEs followed in May 1999 when the Government established a programme of Kingdom of Spain guarantees for SME securitizations.

As it currently stands, the programme provides an annual allocation of guarantees on SME ABS which may be used to guarantee up to 80% of notes rated at least "AA" and 50% of notes rated at least "A". The guarantees are available under the conditions that at least 80% of the sold portfolio must comprise SME loans and that 80% of the securitization proceeds must be invested in new SME assets within a one year period. As of mid-year 2009, an approximate cumulative total of €5.6 billion of guarantees has been issued, of which about €3.8 billion remains outstanding.

The Government guarantees reduce the funding costs of the Fondos de Titulizacion de Pequenas Medianas Empresas (FTPYME), as Investors are willing to invest in Government-backed obligations at lower credit spreads than those required of private sector obligors. In a typical transaction, this could amount to a saving of 15-20 basis points per annum on the total financing costs.

C.4.4 Role of the European Investment Fund in SME securitization

The European Investment Fund (EIF) has played a prominent role in SME securitization as a credit enhancer in Europe. Typically, EIF provides a credit wrap (lower rated ABS tranches are elevated to a higher rating by virtue of a guarantee from the credit enhancer) on both super-senior, senior and lower rated tranches of SME securitizations. This has had two beneficial effects for Investors: it provides a top AAA rating for the ABS tranches concerned, and it also allows banks to invest and obtain Regulatory Capital saving. By this method, EIF facilitates the placement of the wrapped tranches with Investors, thereby considerably aiding the SME securitization process. Less frequently, EIF has provided enhancements by way of credit protection contracts, assuming risk down to a floor of a BB rating.

C.4.5 Lessons for Rwanda on Asset Backed Securities

South Africa	South Korea	Spain	Other Countries
1. Listing of credible companies with established track records is critical. 2. Presence of accounting and legal system to support off-balance sheet transactions a prerequisite. 3. Lack of interest by banks to engage in off-balance sheet transactions.	Enacting a law to govern securitization originated by financial institutions is critical.	Public sector activity in aiding SME securitization by providing guarantees does indeed provide incentives as investors are willing to invest in Government-backed obligations at lower credit spreads.	Credit enhancement is critical for the successful implementation of securitization. This role can be played by international financial institutions like the Fad.

D: SCOPING THE POTENTIAL FOR SME FINANCING IN RWANDA

Section B provides the situation analysis of SMEs and section C summarizes experiences with various instruments for increasing SMEs access to finance from selected countries. In Rwanda and several other developing countries, the primary source of funding for SMEs is either own financing, informal sources or from the banking sector. Drawing from the regional and international experiences, this section explores the possible approaches for improving SMEs' access to financing including through the capital markets. Four key instruments or vehicles are discussed:

i) Private Equity and Venture Capital Programme;
ii) Fund of Funds (RFF), funded by the government and in partnership by the private sector and development partners;
iii) Alternative Investment Market Segment (AIMS); and
iv) Asset-backed securities.

D.1 Establishment of Private Equity and Venture Capital

Feedback from the commercial banks in Rwanda indicates that one of the key challenges for SMEs is inadequate equity, often concentrated in a few shareholders. The rationale for higher and diffused equity is that the risk of the business would be cushioned and/or spread between shareholders and other financing sources including banks. Venture capital is one avenue through which SMEs could raise equity. The challenge is that the venture capital market in Rwanda is still in its infancy. However, Rwanda can benefit from existing venture capital funds within the East African region which are particularly targeting SMEs. Most of these funds are based in Nairobi but with a regional focus including the East Africa Capital Partners, African Agricultural Capital, Fanisi Venture Capital Fund, Citadel Capital Private Equity Fund, and Savannah Fund, among others. The SMEs based in Rwanda can initially benefit from these funds if information is availed to them regarding the requirements of these funds. In addition, an effort could be made to market some of Rwanda's SMEs to the fund managers in the region. Developing a prospectus containing productivity, financial, and growth potential of these SMEs could be useful in this regard.

To attract and establish venture capital in Rwanda several steps need to be considered. Venture investment consists of three stages: fundraising, investment, and exit.

At the fundraising stage, the promoter of the venture capital fund seeks for investors. These investors could include angel investors[6], government, pension funds, banks and other institutional investors like insurance companies. Rwanda could also adopt South Korea's experience where the government took a lead role in financing venture capital funds for SMEs (see Korea Fund of Funds in section C). In this case the government could be the leading promoter of the Fund and solicit other investors like the pension funds to invest in this initiative.

[6] An angel investor or angel (also known as a business angel or informal investor) is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.

Thus, there would be a need to identify companies in Rwanda that have failed to raise the required equity but with potential to make high returns for equity investors. The mechanism to identify such enterprises should be a collaborative effort between commercial banks, CMA Rwanda, venture capital funds, and other agencies such as the Rwanda Development Bank (RDB). The RDB has over the past few years been collecting information on companies for the annual Business Excellence Awards and such information could be a starting point for the venture capital industry (Appendix 1).

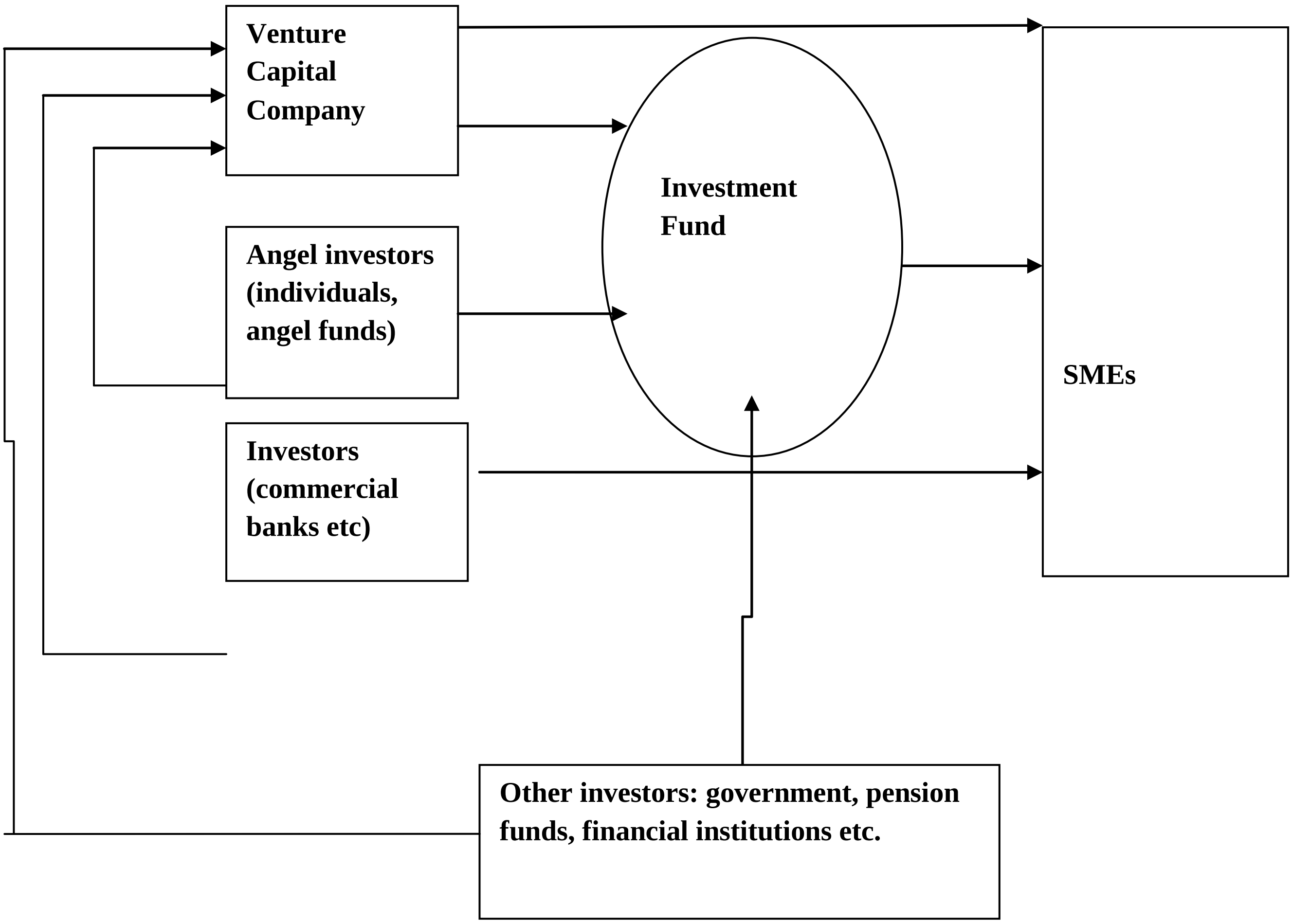
The second stage typically involves VC investing and the participation of the VC institution in the investee company. This is motivated both by the need to protect the VC institution's investment against downside risks, particularly because the investor cannot simply sell out his investment (in unlisted shares) if its performance is poor, and by the aim to "add value" to the investee company by contributing the VC firm's experience and contacts to such areas as business strategy, management organization and processes, financial planning and control and investor relations. The extent of this involvement varies considerably between VC institutions in different countries and sectors from those with a "hands-on" approach with a close and continuous relationship with management, to a "hands-off" or passive one where the institution relies on periodic financial reporting to monitor its investments. The importance of maintaining close relationships with investee companies means that VC institution's need to be physically close to their clients and to operate with a high staffing ratio (e.g. with each VC executive handling not more than 10 investee companies).

The final and critical phase of the VC investing cycle is to manage the divestment or exit from the investee firm. Since realizing a substantial capital gain is essential to achieving high investment returns, determining and achieving the timing and conditions of the sale of investments are key elements of the VC process. Divestments are arrived at through one of three basic exit routes: Flotation of the investee company's shares through an Initial Public Offering (IPO) in a stock exchange or over-the-counter market. This usually offers enhanced marketability and higher exit valuation for the investment through the higher price-earnings multiples of quoted shares: however, the investee company may be unwilling to incur the transaction costs and disclosure requirements of listing. The second exit alternative is the secondary or "trade sale" of the VC investor's shares to another investor or company. This is probably the most commonly used route, although in larger, developed economies the transaction is often initiated by the acquirer which has identified the investee company as having a good strategic fit with its own operations. The third alternative is the repurchase of the VC institution's shares by the entrepreneur or the investee firm. The original contractual agreements between the investors and the entrepreneur may provide for this possibility and define the conditions for the buyback of shares. The feasibility of these options depends importantly on the size and liquidity of the securities market in the country concerned, and the attitude of the entrepreneur to accepting outside shareholders.

As shown in Figure 11, there are various ways of promoting venture capital funds for the SMEs benefit. First, the venture capital company may invest directly in their preferred SMEs. Second, an investment fund could be created where venture capital companies channel their resources to finance SMEs. The government and other institutional investors could also allocate resources directly to this investment fund.

The challenge for the case of Rwanda is that the private venture capital market is still nascent, which on the other hand could be an opportunity that allows government to take a proactive role in designing programmes for capital market development with specific focus on improving access to finance for SMEs.

Figure 11: Venture Capital Fund



D.2 Establishment of a Rwanda Fund of Funds (RFF)

This proposal to establish a Rwanda Fund of Funds borrows heavily from the Korea experience. It is proposed that Rwanda considers establishing a fund of funds. To do this the following steps are recommended:

i) Government should take the initiative in the establishment of fund of funds by providing the seed capital. See Experiences of Yozman, Korea, and Ghana.

ii) The government should invite the private sector both local and foreign to join it in funding the fund of funds program.

iii) There should be clear guidelines on selection of investors to partner with the government in the contribution of seed capital and the SMEs to work with as in the case of Israel, Korea and Ghana. It should be made clear the support to SMEs will not be subsidy.

iv) The government should design the fund of funds programme in such a way that it allows the private sector to buy out its contribution, say after 10 years.

v) The governance and management structure of the fund should allow for a greater independence guided by international best practices. This would enable the managers to make funding decisions based on the viability and potential contribution of the SMEs. The Fund would also have to be regulated by the Capital Markets Authority to ensure that it meets the generally acceptable standards and practices of capital markets and does not out-compete private venture capital initiatives. The venture capital invested in the individual SMEs would also follow the management practices that are used in the private venture capital market as in the case of Venture Capital Trust Fund of Ghana and Brazil. In particular, the venture capital companies would take positions in individual SMEs and this would only be for an agreed period of, say, 5 to 10 years.

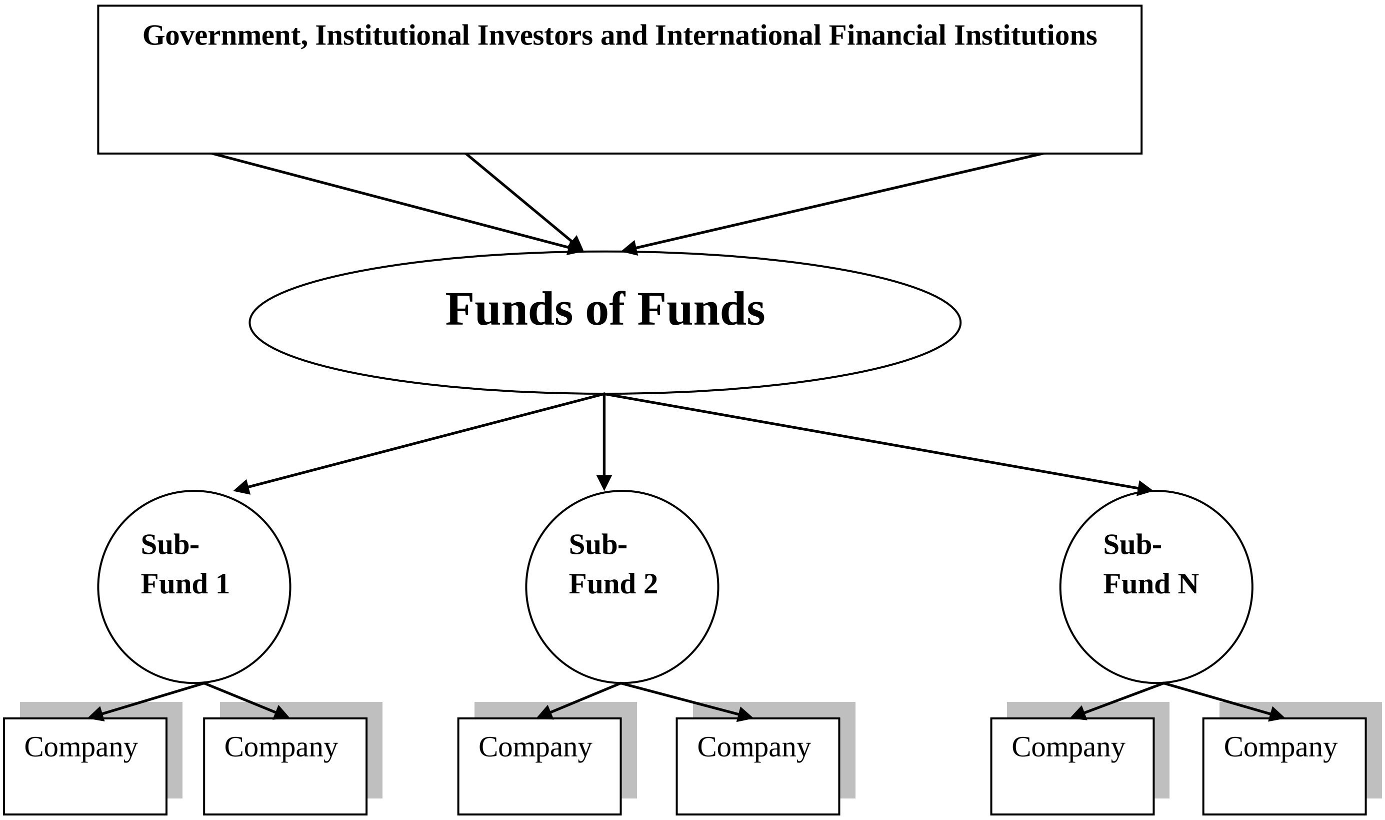
vi) Competent managers must be recruited to manage the fund of funds and criteria for compensation worked out.

vii) Performance benchmarks have to be drawn up and implemented to the letter.

The structure of the funds of funds would appear as shown in Figure 12. It should be noted from the figure below that the source of financing should not only be restricted to government. Once the Rwanda government initiates the fund through providing the necessary initial funding or seed capital, the FoF should marketed to other potential investors including pension funds and development partners. The initial seed capital will depend on various factors including government's budget and initial contributions from investors. Given that SMEs comprise over 90% of all business in Rwanda and the subsequent contribution to the economy in terms of employment, initial seed capital of US$ 30- 50 million is recommended. The government in collaboration and its co-investors would also have to decide on how much to allocate to the various sub-funds. This decision could be informed by the Government's strategy to promote the development of various SME clusters as outlined in the MSME policy (2010) as well as due diligence assessments on growth potential and economic impact of the different SME clusters.

Once the initial seed capital has been mobilized, the FoF would operate as a revolving and self-financing fund in the same way the Government of Ghana envisioned the establishment and operations of the Venture Capital Trust Fund in Ghana. The dividends earned from the various SMEs would be ploughed back into the fund for investment in other SME companies.

Figure 12: Rwanda Fund of funds



D.3 Establishment of Alternative Investment Market Segment (AIMS)

Rwanda's economy largely depends on agriculture for employment and export earnings, with the majority of the agricultural population engaged in subsistence farming. The dominant size of the establishments is micro and small-scale measured both in terms of capital and employment. Governance, management and financial reporting of the SMEs are still undeveloped. The predominance of sole proprietorships and family owned business also presents challenges to the development of equity-based businesses. Thus, the current listing requirements that primarily target large companies might need to be adjusted to allow SMEs to participate in the capital markets. However, and as the experiences from the region demonstrate, adopting alternative listing requirements should not be considered as a panacea but rather part of the set of strategies for support SMEs to participate in the capital markets. The CMA in partnership with the government and other stakeholders should sustain reforms aimed at addressing both the demand- and supply-side constraints to accessing finance, including through the capital markets. For instance, programmes to educate SMEs on issues of ownership, registration, and financial management and reporting and other business competencies need to be emphasized. Increasing affordability and access to business development services with a model based on cost-sharing should also be explored.

The table below presents the proposed adjustments in the listing requirements, drawing on SME date from Establishments Census (2011), Complementary Survey (2012), and experiences from other countries.

Table 15: Proposed Alternative Listing Requirements for SMEs

Listing Requirement	MIMS	AIMS	Justification
Minimum paid up capital	RWF 500 million	RWF 50 million	Based on turnover of SMEs
Profit History	3 years	None	Infancy of SME as established in surveys
Number of shareholders at listing	50	10	Most SMEs are family based with fewer shareholders at start-up.
Sponsor/Designated Adviser	Sponsor	Designated Adviser	Adviser necessary to guide SME in listing process.
Company listed by shares and incorporated or registered	Required	Required	SME should be legal entity to enhance its credibility.
Special Requirements	N/A	Appoint Financial Directors	Useful to enhance credibility of SMEs
Education Requirements	N/A	All directors to attend Induction program	This was very useful for the AltX market in Johannesburg
Audited Accounts	Required	Not required	Based on 200 firm survey few SMEs have audited accounts

D.4 Setting up Asset-back Securities

Whereas there are no specific relevant examples on SMEs using ABS, the following factors have been important ingredients in the development of the securitization market and indeed are essential characteristics for its future development and expansion even for the case of Rwanda.

- Improvements in the techniques of risk analysis;
- Advances in information technology to facilitate the transactions;
- Advanced disintermediation, whereby banks originate and distribute some or all of the resultant risk to investors;
- The growth of derivative products and techniques for hedging and risk transference;
- The relative stability of ABS as a risk class, with consistently lower levels of default compared with other rated asset classes as demonstrated over a number of years; and Greater Investor sophistication;
- The various notes issued by the SPV which requires presence of credible rating agency.

- Given the riskiness of SMEs, this would require establishment of guarantee scheme to enhance the credit worthiness of the SMEs;
- Absence of appropriate laws to enhance ABS.

For the implementation of the ABS, this would involve the following key players:

- Originator: the party, which originally extended the loans (or other claims) being securitized.
- Servicer: the party, which administers the securitized portfolio of assets. Almost invariably, this is the Originator.
- Arranger: the party that structures the portfolio of assets and negotiates and advises on the transaction terms. Usually an investment bank or the capital markets arm of a large banking group.
- Underwriter: the party that underwrites the sale of ABS created by securitization. This is usually the same as the Arranger.
- Special Purpose Vehicle (SPV): the legal or beneficial owner of the portfolio sold by the Originator. A specially created company (usually with a minimal level of capital), dedicated exclusively to its role in a single securitization. SPVs are the issuers of ABS, which are usually listed.
- Rating Agency: the party providing the credit ratings for the ABS, without which the market could not operate. The analytical process, which leads to a decision to award a particular rating for each tranche in a securitization is complex and involves, among many other things, multiple simulation analysis of default frequencies and loss severity in specific asset portfolios. Debt ratings are expressed in an alphabetical format, the highest (strongest) being “AAA”, the next highest “AA” etc.
- Investors: the buyers of the debt instruments, including banks, insurance companies, mutual funds and others.
- Facilitators: other parties with a specific role in securitization, including trustees for the ABS, tax advisers, legal advisers, auditors and market makers/traders.

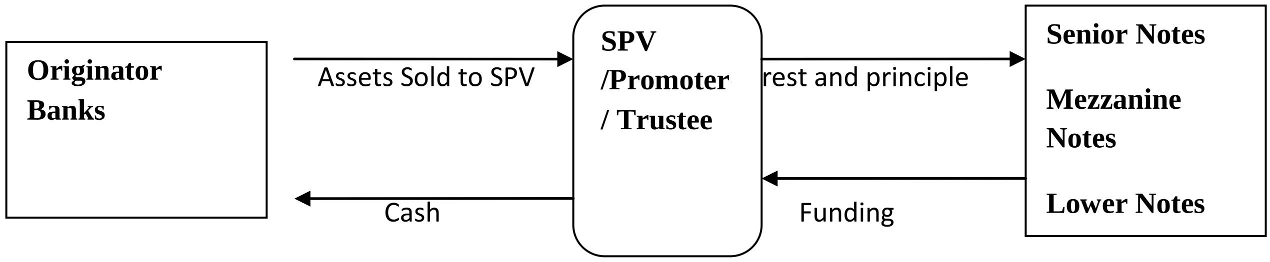
D.4.1 Setting up Collateralized loan obligation and pooling of SMEs to reduce risk

While this instrument is mostly used for large enterprises, it is also applicable to SMEs. Under this transaction, selected loans to SMEs are packaged into a pool and sold by the originator, for instance a financial institution, to a special purpose vehicle (SPV), promoter or trustee as illustrated in Figure 13.

The SPV/promoter/trustee refinances the pool by issuing tradable commercial paper secured by the underlying assets. The promoter then allocates proceeds to a prioritized collection of securities issued to capital market investors in the form of tranches with various tranches. The tradable securities are categorized into senior notes, mezzanine notes, and lower notes with varying risks and thus returns.

Pooling various SMEs to form a CLO has the benefit of spreading the credit risk associated with SMEs across debt market investors and can attract investors with various appetites for risk. The CLO also provides additional leverage to commercial banks to increase the amount of loans available to SMEs. Other benefits of the CLO include.

Figure 13: Collateralized Loan Obligation



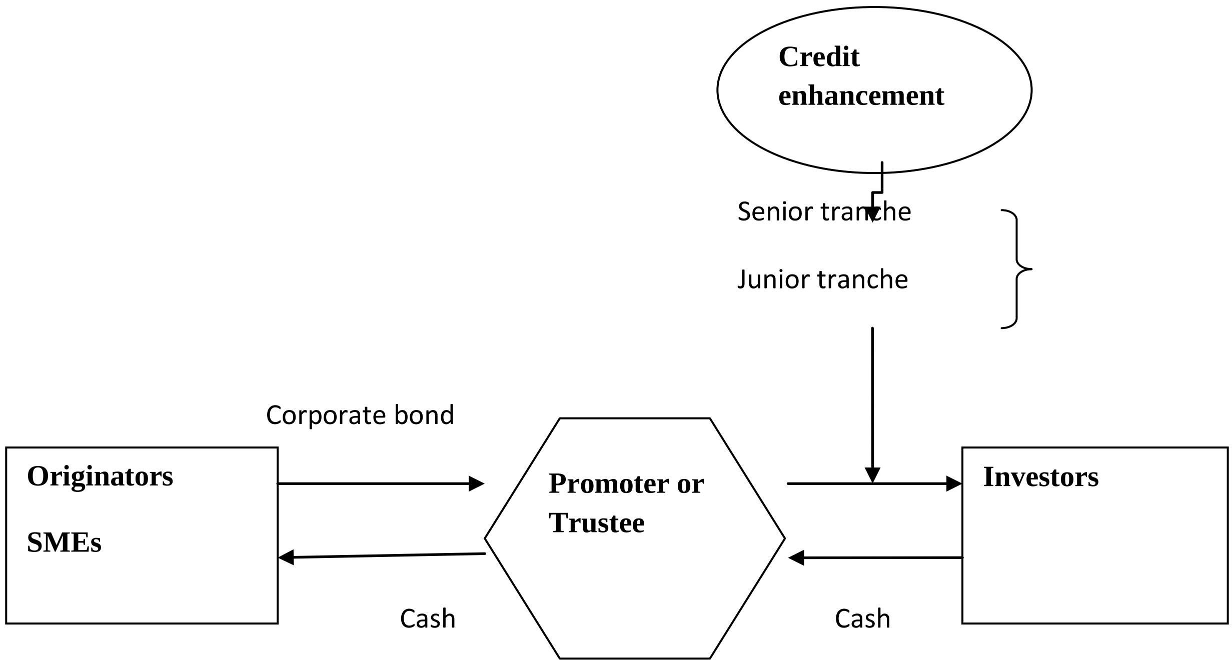
D.4.2 Setting up Collateralized bond obligations (CBOs)

SMEs are associated with high transaction costs and high credit risk due to among other things, the low borrowing volumes and low survival rates. One way to circumvent these two problems supporting SMEs to issue bonds through the stock market and which are subsequently collateralized (Figure 14).

CBOs are not very different from CLOs as both are collateralized debt and asset-backed securities expect that the former are backed by bonds while the later are backed by bonds. For CBOs, once the SMEs issuing the bonds are identified by the promoter or government, the pooled bonds are sold to the promoter of the transaction or trustee. The promoter then issues the CBO to investors which is backed the corporate bonds as the underlying asset. However, credit enhancement in the form of a guarantee or insurance would be necessary since given the fact that the CBO's underlying assets would still be considered risky for the investors

CBOs represent a medium term objective for Rwanda because of various reasons. First, implementing CBOs requires the SMEs that would issue bonds to be listed on the stock market. Second, it would require a market benchmark in the form of a yield curve to price these bonds. Third, there should be a thriving market of high yield bonds, which currently is not in place in Rwanda. In spite of these challenges, CBOs are still viable instruments which can be explored by the Capital Markets Authority in the medium term especially as the stock market develops. BDF could provide credit enhancement given its experience in providing guarantees for SMEs.

Figure 14: Collaterized Bond Obligation



While both the CLO and CBO seem to be attractive instruments that could be explored by the capital markets authorities, the instruments should be investigated carefully prior to implementation. These two instruments are associated with various risks inherent in the underlying assets that would require safeguards for the investors.

Box 3: Risks Associated with Asset Backed Securities

Credit risk: Credit risk is the risk that a change in the credit quality of borrower will affect the market value of the underlying collateral position. Defaults, whereby counterparty is unwilling or unable to fulfil its contractual obligations is the extreme case. Investors are also exposed to risks that the counterparty might be downgraded by a rating agency. With regards to CLO and CBOs, credit risk emanates from the risk of default on the portfolio. The equity investors who do not have the benefit of overcollateralization or subordination are more exposed to credit risk as they are the last to receive any principle or interest from the proceeds.

Interest Rate Risk: This risk arises from various factors in CLO or CBOs and depends on the complexity of structure and the nature of hedging involved. For most of these arbitrage cash flow CLOs or CBO, the risk is included in the form of basis risk i.e. a mismatch between fixed and floating rates asset and liabilities. Basis risk is usually hedged with interest rate swaps, caps, and /or floors. However, CLO and CBO interest rate risk is difficult to hedge fully due to the active management of the assets and limited ability to buy or sell interest rate hedges.

Liquidity Risk: Liquidity risk for the CLO and CBO relates the ease with which assets in the asset portfolio can be traded. This could particularly be a challenge for a portfolio whose underlying assets is debt owed by SMEs.

Other types of risks involved with these assets include: prepayment risk, reinvestment risk, asset manager risk, systemic risks due to downturn of an economy and currency risks if the portfolio has a foreign exchange component.

E. CONCLUSION AND POLICY RECOMMENDATIONS

SMEs play a significant role in many aspects worldwide. Rwanda is no exception. The Establishment Census 2011 reports that Rwanda had 123,526 establishments in 2011 compared to an estimated 73,000 in 2008. Of the 123,526 establishments, 96.5% were in the private sector, employing 91% of Rwanda's workforce. The SMEs comprise 98% of all the establishments; micro-sized establishments accounting for 92.6% of all establishments with 89,219 (72%) having just one worker, an indication that growth in the SME sector could be of strategic importance especially in supporting inclusive growth and youth unemployment. Growth of the SME sector also has the potential to lower Rwanda's trade and fiscal deficits owing to the low export potential mainly driven by traditional crops and dependence on external grants and loans which contributed over 50 percent of the budget in FY 2011/12. Reduction in this fiscal deficit could be achieved by drawing SMEs into the tax net as they expand their operations.

Several initiatives have been undertaken by the Government of Rwanda, development partners, and development finance institutions to support SME development. In spite of these initiatives however, on the demand side, there still remains both internal and external challenges to the growth of SMEs. Most SMEs still depend on internally generated funds and borrowing from informal sources. Only 11.2% of SMEs are registered with the Rwanda Revenue Authority although up to 87% are registered at local government level. Financial institutions consider SMEs to be highly risky due to the low survival rates, among other things and with high transaction costs due to the relatively lower loan volumes. Moreover, there is widespread information asymmetry about the operations of SMEs, and where available, information is scattered across various financial institutions, credit programmes and other programmes supporting the SMEs.

Furthermore, the overall policy environment was in the past identified as an impediment to the growth of SMEs. However, the Government responded by developing an SME policy to guide the development of this sector. The growth of SMEs is also constrained several factors including the limited access to quality business development services, the absence of supporting infrastructure such as road network, power supply, water for production, and telecommunication services. Lack of access to finance has also been ranked as one of the most critical constraints to the growth of SMEs.

This study makes a case for the need to explore various options for using capital markets to finance including the benefit of raising more affordable funds for business growth and expansion, risk sharing and diversification to reduce risk exposure by having more investors through a public offering; and increased publicity and scrutiny of SMEs' operations of their operations.

On the supply side, factors contributing to SME financing gap include; perception that SMEs are risky and associated with higher transaction costs relative to the small volumes of loans applied for; limited financial instruments; the nascent capital markets; and a capital market legal and regulatory framework that is tilted in favor of large companies.

However, regional and international experiences, especially the experience of countries such as Brazil, Israel, South Korea, Ghana and South Africa with various instruments for financing SMEs indicate that financing SMEs through capital markets and other sources can be enhanced. Key policy recommendations for addressing the afore-mentioned challenges include:

E.1 Regulatory and legal reforms

While the regulatory and legal framework for the development of financial markets, including capital markets is in place, the authorities should consider revising the listing requirements targeting the SME sector as discussed in Section D. The existing listing requirements do not favor SMEs to benefit from the equity and debt market because the establishments are predominantly micro and small-scale enterprises which are mainly sole proprietorships and family owned To list in RSE, an establishment should be incorporated.

However, the authorities should not stop at only relaxing the listing requirements for SMEs. As the case of Altx in South Africa has demonstrated, the Government of Rwanda will need to partner with the RSE, a representative of the SMEs and development partners to address the other SME specific challenges such as limited financial management and reporting, issues of incorporation, corporate governance and other bottlenecks to SME development.

E.2 Information sharing.

Authorities should embark on improving access to information on the operations and activities of SMEs. This could for instance be achieved by facilitating disclosure of data and information by various agencies to facilitate the evaluation mechanism by private investors (for example venture capitalists) or banking institutions.

The government, CMA, financial institutions and SMEs should consider developing an information gathering and sharing system on the performance, profitability, market niche, among others. The proposed information sharing system could be modeled around the credit reference bureau although the scope of information collected, managed and shared will extend beyond credit. Supporting legislation will be necessary for the operationalization of such an information sharing system. The information required from a company should at least cover the key financial indicators captured when companies are trading on stock exchanges. A similar database has been developed by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN).

E.3 Encourage and Promote establishment of Private Equity and Venture Capital (PE/VC)

Rwanda can benefit from existing venture capital funds within the East African region which are particularly targeting SMEs. Most of these funds are based in Nairobi but with a regional focus as discussed in section C. The SMEs based in Rwanda can initially benefit from these funds if information is availed to them regarding the requirements of these funds. In addition, an effort could be made to market some of Rwanda’s SMEs to the fund managers in the region. Developing a prospectus containing productivity, financial, and growth potential of these SMEs could be useful in this regard.

E.4 Establish a Rwanda Fund of Funds (RFF)

As explored in Section D, it is recommended that GoR initiates establishment of Rwanda Fund of Funds by contributing the seed capital and inviting potential partners to join it. By setting up the Rwanda Fund of Funds, the Government will not only be promoting access to financing by SMEs, it will also ensure that the fund is able to finance the venture capital market even when the economy is not performing well.

E.5 Set-up Asset-backed Securities

Asset backed securities should also be an option that can be explored by the capital markets authority for the benefit of SMEs. This however as demonstrated in section D.4 would require a more vibrant securities exchange market with quality SMEs which have a truck record that are listed on the stock exchange. Also, the authorities would have to be cognizant of the inherent risks associated with these securities and the mitigating measures.

E.6 Review the current approach of provision of Business Development Services

The GoR should review its policy of divesting from providing business development services to SMEs and instead go from partnership between the government and the SMEs on 50:50 cost sharing basis. The GoR also needs to institute Education and Awareness Programmes on capital markets.

E.7 Fiscal Incentives

As a way to stimulate the capital markets, use of direct government interventions in form of providing tax breaks, grants and other forms of subsidies is recommended. For the case of Rwanda, given that the capital markets have been operating for only a few years, there is limited empirical evidence to enable us have a complete picture of the extent of the effect of the current tax regime on the growth of the capital markets, and whether any major reform is required in this regard. The following are the Capital Market investment incentives as contained in the special official gazette published on 28th May 2010.

1. Income tax exemption: Income accruing to registered collective investment schemes and employees' shares scheme are exempted from income tax."
2. Capital gain tax: Capital gain on secondary market transaction on listed Securities shall be exempted from capital gains tax.
3. Corporate income tax: Newly listed companies on capital market shall be taxed for a period of 5 years on the following rates:

- 20% if those companies they sell at least 40% of their shares to the public;
- 25% if those companies sell at least 30% of their shares to the public;
- 28% if those companies sell at least 20% of their shares to the public;

4. Venture capital: Venture capital companies registered with the capital markets Authority in Rwanda benefit from a corporate income tax of zero percent (0%) for a period of five (5) years from the date the decision has been taken.

5. Withholding tax on dividends and interest: Withholding tax on dividends and interest income on securities listed on capital markets and interest arising from investments in listed bonds

with a maturity of 3 years and above shall be reduced to 5% when the person who withhold is a resident taxpayer of Rwanda or of the East African Community.

6. VAT: The transfer of shares and capital market transactions for listed securities are exempted from VAT

F: ACTION/IMPLEMENTATION PLAN

This section summarizes the key actions required to implement the recommendations discussed in Section E. While some measures can be undertaken immediately, others would require time to materialize. The immediate short-term measures would prepare ground for the medium and long term actions. The short-term in this case refers to a period of less than one months; the medium term covers the period 1-3 years while long-term actions should be implemented after three years.

The indicative costs for implementing the action plan are based on several assumptions. For the building of a credible information sharing system, we assume that this role can be undertaken within the Ministry of Trade and Industry which already under whose mandate SME development falls. We also assume that the rules and remuneration for the additional personnel will be in line with the Pay and Retention Policy.

For the case of simplifying the listing requirements, the institutional structures are already in place under the CMA and it's assumed that the related actions can be implemented without any additional cost. Identification of prospective SMEs will draw from RDB Excellence Awards database and could be strengthened in collaboration with the CMA. The Ministry of Trade and Industry in partnership with RDB and the CMA would then market the identified companies to potential investors within the region for instance through a publication such as an Investment Prospectus and other outreach programmes.

For the administrative costs of establishing the RFF, we assume that at its inception, the fund would require an experienced fund manager with a proven track record in managing similar funds. This fund manager could be recruited internationally and probably deputized by a national for on-the-job training and knowledge transfer. As such, an attractive remuneration package is proposed for the fund manager. The initial endowment of the fund is based on the experiences from other countries such as Israel and also accommodates other factors including the financing gap for SMEs and the potential impact of SME development.

Recommendation	Action	Time-line	Responsible Agency	Budget (US $)
Regulatory, legal and institutional reforms	Review the listing requirements and create an AltX.	3 months	CMA, RSE	--
Information sharing	Establish a database on operation of SMEs that can be shared with investors. SMEDAN for Nigeria could be an example.	6 months	CMA, RSE, NSI, RDB, Ministry of Trade and Industry	100,000
Encourage and Promote Unlisted Securities Market, OTC and Private placements	Develop a prospectus containing productivity, financial, and growth potential of these SMEs. Organize forums where SMEs and potential venture capitalists can meet and exchange information	Continuous	CMA, RSE	100,000
Pooling Risk for SMEs	The CMA and RSE could also explore the possibility of introducing an indexed equity fund with a specific number of SMEs and varying risk return profiles. Such indexed funds have been successfully traded on advanced stock markets and these indexed funds can partly address the high risk burden associated with individual SME companies.	Long-term objective	CMA, RSE	--
Establish a Rwanda Fund of Funds (RFF)	1. The government should invite the private sector both local and foreign to join it in funding the fund of funds program. 2. Government providing seed capital	12 months	Ministry of Finance and Economic Planning, CMA, Ministry of Trade and Industry	50,000,000
Set-up Asset-backed Securities	1. Introduce appropriate laws for regulating ABS. 2. Provide more financing for guarantee schemes to enhance the credit risk of SMEs. 3. Encourage the establishment of credit rating agencies. 4. Encourage banks to originate and distribute risks arising from SME portfolios to investors.	2 years	Ministry of Finance and Economic Planning, National Bank of Rwanda, Commercial Banks, CMA	5,000,000
Review the current	1. Subsidize the cost of	1 year	Ministry of	5,000,000

approach of provision of Business Development Services	provision of BDS to SMEs. 2. Enhance the capacity of the providers of the BDS		Trade and Industry, RDB, BDF	

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APPENDIX 1: Prospective Companies that may benefit from venture capital

Tourism			
Royal villas	Isimbi Hotel	Peace Hotel	JK Safaris
Gorilla Hotel	.Beasejour Hotel	Lake View Apartments	Bizy Danny Tours
Aberden House	Sky Hotel	Hotel Ubumwe	Mapendano Voyage
Stipple Hotel	Kiyovu Motel	Peace Guest House	Gerry Tours and Safaris
Mille collinnes hotel	Bloom Hotel	Hotel Faucon	Wild life Tours
Laico Umubano hotel	Garidinu centre	Hotel credo	Albtertine Safaris
Top Tower Hotel	.Sabyinyo Silverback lodge	Barthos hotel	Silverback Adventures
Hotel chez Lando	Gorilla Neste Lodge	Akagera Safari Lodge	STS Karisimbi
ALPHA PALACE	La Palme Hotel	La petit Prince Hotel	Kibiko Tours and travel
LA PALISSE Hotel	Ishema Hotel	Primate safaris	Satguru Travel and Tour Serv
Impala Hotel	Virunga Lodge	Thousand Hills Expeditions	Zebra Country Tours
Okapi Hotel	Muhabura Hotel	Volcano Safaris	
Aubourege Saint Jean Leopo	Kinigi Guest House	New Dawn Association	
Iris Hotel	Hotel Urumuli	Rwanda Eco Tours Agency	
Ninzi Hotel	Belvedere Hotel	Amahoro Tours	
Agro-processing	**Real Estate**	**Manufacturing**	**ICT**
EPCHER	Real contractors	CHILLINGTON RWANDA	A –Link Technologies
ICM RWANDA RICE INDUSTR	CASSAIE SOCIALLE/CSR	RWATOLE	BCS GROUP
Ikambere Dairy	DN Internl	UPROTOUR	AXIS
Inyange Industries Lt	Soras Estate	AFRIFOAM	STAR AFRICA MEDIA
Kabuye Sugar Works Sarl	Kigali Top Mountain view	AMEKI COLOUR	PIVOT ACCESS
Pfunda tea factory	Centenary house	PETROCOM	PERSPECTIVE DESIGN
RUBILIZI DAIRY SAR	Building Ruzindana	KIGALI CEMENT COMPANY	ROCK GLOBAL CONSULTING
SOPYRWA Sarl	City plaza	NPD COTRACTO	TELE-10
SORWATOM Sarl	UTC Rujugiro	UTEXRWA	RWANDATEL
URWIBUTSO		RWANDA INDUSTRIES	MTN
Sorwathe	**Mining**	ROTASSIRWA	RWANDA DEVELOPMENT GA
	Wolfram	TOILIRWA Sarl	GASABO 3D
	Kivu Gold	SIGMA COAT	E-ICT TRAINING CENTER
	Rwanda Rudiniki	Rwanda Plastic Industry	DASH- TECHNOLOGIES
	MPA Gatumba Concession	RWANDAFOAM	BUSINESS MACHINES
	African Primary Tungsten	Safari Center	ARTEL COMMUNICATION
	Pyramides	Rwanda Color	ALTECH STREAM
	RAP	Master Steel	CGIS
	Coopexmi	SULFO RWANDA	SAP AFRICA
	Euro trade	AMAZI YA HUYE	SMS MEDIA
	Ets. MUNSAD		KIST IT TRAINING CENTER
			HUAWEI
	ROGI Mining		MEGA SYSTEMS
			ISPA
			RASE
			CAL RWANDA
			E-Tools

Source: Rwanda Development Board

Appendix 2: SME Questionnaire

LEVERAGING CAPITAL MARKETS FOR SME FINANCING IN RWANDA
Uruhare rw' amasoko y'imari n'imigabane mu guha ubushobozi bw'amafaranga ibigo bito n'ibiciritse mu Rwanda

African Development Bank
Banki nyafrika y'iterambere

Survey on the access to finance of SMEs
Ubushakashatsi mu kubona ubushobozi bw'amafaranga ku bigo bito n'ibiciriritse

April 30th to May 11th 2012
Kuya 30 Mata kugeza kuya 11 Gicuransi

We are from The African Development Bank Rwanda Field Office. We are carrying out a survey on SMEs and their accessibility to formal financial capital markets. You have been randomly selected to participate in this assessment. All the information we obtain will remain confidential and will not be shown to any other person or firm. We would very much appreciate your participation in the survey, but participation is voluntary and you can choose not to answer any of the questions or all of them. However, we hope that you will participate in this survey since your views are important. The results of the survey will be important for the key stakeholders and SMEs to improve the access to finance for SMEs. May I speak with the person who would best be able to provide information on how your enterprise is financed?

Dukorera ishami rya Banki Nyafurika y'Iterambere rifite icyicaro mu gihugu cya Rwanda. Turi gukora ubushakashatsi kuryo ibigo bito n'ibiciritse bibona amafaranga yo gukoresha akomoka ku masoko y'imari n'imigabane. Ikigo cyanyu ni kimwe mu bigo byatoranijwe gukorerwamo ubu bushakashatsi. Amakuru yose muzaduha azagirwa ibanga, ntashobora gutangarizwa undi muntu uwo ariwe wese cyangwa se ikindi kigo. Tubashimiye ubushake bwanyu bwo gufatanya natwe muri iki gikorwa. Kugira uruhare muri ubu bushakashatsi ni ubushake bwa buri kigo. Mushobora gusubiza ibibazo byose cyangwa se bimwe muri byo mwihitiyemo. Twizeye ko muzafatanya natwe kuko ibitekerezo byanyu ari ingenzi. Ibizava muri ubu bushakashatsi ni ingenzi kubafatanya bikorwa b'ibigo bito n'ibiciriritse mu guteza imbere ukubona ubushobozi bw'amafaranga ku bigo bito n'ibiciriritse. Nshobora kuganira n'umuntu waba yampa amakuru akenewe ku kigo uko kibona amafaranga akoreshwa?

STRICTLY CONFIDENTIAL SME QUESTIONNAIRE

Amakuru ari kuri uru rutonde rw'ibibazo ku bigo bito n'ibiciritse ni ibanga

Region/ *Akarere*
…………………………………………………………………………………………………

Town/ *Umujyi*
…………………………………………………………………………………………………..

Name of Firm/ *Izina ry'ikigo* …………………………………………………………………………..

Date of the interview/ *Italiki y'ibazwa* ……………………………………………………………

Name of the interviewer/ *Izina ry'ubaza* ………………………………………………………..

Questionnaire Number/ *Nimero y'urutonde rw'ibibazo* …………………………………….

Interview Outcome/ *Ibyavuye mu ibazwa*

Complete/ *Biruzuye* ……………………………………………………

Incomplete/ *Ntabwo byuzuye*……………………………………….

Section 1: General characteristics of the firm / *Igika 1: Ibiranga ikigo muri rusange*

1. How many people does your company currently employ either full or part time? / *1. Iki kigo cyanyu gifite abakozi bangahe bahoraho n' ab'igihe gito?*

(Don't *include unpaid family workers/ Ntimushyiremo abo mu muryango bakora badahembwa)*

Numerical answer/ Igisubizo mu mibare […………………….]
[*If 0 employees stop interview/* Niba nta bakozi bafite hagarika ibazwa]

2. How would you characterise your enterprise? Is it.../ *2. Ni mu ruhe rwego mwashira ikigo cyanyu? Ni…*

2.1 Part of a profit-oriented enterprise (e.g. subsidiary* or branch) not taking fully autonomous financial decisions……………*1*

***2.1 Igice cy'ikigo giharanira inyungu (urugero, ikigo gito kigengwa n'ikigo gikuru cyangwa ishami) ariko kidafata imyanzuro yigengayose y'ikoreshwa ry'umutungo*...................................... 1**

2.2 An autonomous profit-oriented enterprise, making independent financial Decisions……………………………………………………2

2.2 *Ikigo kigenga giharanira inyungu gifata inyanzuro yigenga y'icungwa ry'umutungo.*...2

2.3 A non-profit enterprise (foundation, association, semi-government)………….3

2.3 Ikigo kidaharanira inyungu (ishyirahamwe, urugaga, abigenga bafatanya na guverinoma)*………………………………….. *3

2.4 Not applicable/ *Nta na kimwe mubyavuzwe*..9

[*If not applicable (9) then stop interview/*

Niba nta na kimwe mubyavuzwe (9) hagarika ibazwa]

3. What is the main activity of your company? / ***Ni uwuhe murimo wingenzi w'ikigo cyanyu?***

3.1 Agriculture/ *Ubuhinzi*……………………………………………………………………………………..1
3.2 Mining/ *Ubucukuzi*...2
3.3 Construction/ *Ubwubatsi*...3
3.4 Manufacturing/ *Gukora ibicuruzwa mu ruganda hifashishijwe ibikoresho by'ibanze*…..4
3.5 Wholesale or retail trade/ *Kuranguza cyangwa kudandaza*..5
3.6 Transport/ *Ubwikorezi* 6
3.7 Real estate/*Umutungo w'ubutaka n' inyubako ziburiho*..7
3.8 Other services to businesses or persons/*Indi mirimo ibyara inyungu*...............................8

4. What was the annual turnover of your company in 2011?

4. Ikigo cyanyu cyinjije amafaranga (igicuruzo) angana iki mu mwaka wa 2011?

4.1 Up to 1 million Rwandese Francs…………………………………………………1
4.2 More than 1 million and up to 10 million Rwandese Francs………………………..2
4.3 More than 10 million Rwandese Francs and up to 50 million………………………………3
4.4 More than 50 million Rwandese francs…………………………………………………4

4.1 *Kugera kuri miliyoni imwe y'amafaranga y'u Rwanda*……………............................... 1
***4.2 Hejuru ya miliyoni imwe kugera kuri miliyoni icumi y'amafaranga y'u Rwanda*……. 2**
***4.3 Hejuru ya miliyoni icumi kugera kuri miliyoni mirongo itanu y'amafaranga y'u Rwanda*...…………3**
***4.3 Hejuru ya miliyoni mirongo itanu y'amafaranga y'u Rwanda*...............................4**

5. Is your enterprise formally registered?

5. Iki kigo cyanyu cyaba cyanditswe mu buryo bukurikije amategeko?

5.1 Not registered/ *Ntabwo cyanditse* ………………………………………………………………………………1
5.2 Registered/ *kiranditswe* ……………………………………………………………………………………………2

6. If registered, in which year was it registered?

6. Niba cyanditse, cyanditswe mu wuhe mwaka?

Numerical answer expected e.g. 2005/ *Igisubizo mu mibare kitezwe, urugero 2005* **[………….]**

7. Does your firm operate using a business plan?/

7. Ikigo cyanyu cyaba gikurikiza gahunda cyihaye yo gushora imari?

7.1 Yes/ *Yego* …………………..1
7.2 No/ *Oya* ………………….2

8. Does your firm prepare any cashflow projections?

8. Ikigo cyanyu cyaba gikora iteganya ry'iyinjira ry'amafaranga?

8.1 Yes/ *Yego …………………..1*
8.2 No/ *Oya ……………………2*

9. Does your firm hold a bank account? / *Ikigo cyanyu cyaba gifite konti muri banki?*

9.1 Yes/ *Yego …………………..1*
9.2 No/ *Oya ……………………2*

10. Does your firm keep regular books of accounts?

10. Ikigo cyanyu cyaba gikora icungamari ku buryo buhoraho?

10.1 Yes/ *Yego …………………..1*
10.2 No/ *Oya ……………………2*

11. Who are the owners of your firm? Please select the most appropriate category in terms of majority holders if more than one category applies.

11. Nibande banyir'iki kigo? Hitamo hamwe muho bafite imigabane myinshi igihe ibisubizo byaba birenze kimwe.

11.1Public shareholders, as your company is listed on the stock market…………………..1
11.1 Banyir'imigabane ari abantu bose, kuko ikigo cyanyu kiyandikishije ku isoko ry'imigabane………………………………………1

11.2 Family or entrepreneurs [MORE THAN ONE OWNER]………………………………2

11.2 Umuryango cyangwa barwiyemeza mirimo [BANYIRI KIGO BARENZE UMWE]…...2

11.3 Other firms or business Associates…………………………………………………3

11.3 Ibindi bigo cyangwa abakora ubucuruzi bishyize hamwe…………………………………. 3

11.4 Venture capital firms or business angels…………………………………………………4

11.4 Urugaga rw'abashoramari cyangwa abakora ubucuruzi ………………………..…4

11.5 A natural person, one owner only/ *Ukora ubucuruzi ku giti ke………………………………..5*

11.6 Other (Specify)/ *Ibindi (bigaragaze)……………………………………………………………7*

12. What is the gender of the owner/director/CEO of your firm?

12. Igitsina cyanyiri/umuyobozi/umuhuza bikorwa mukuru w'ikigo?

12.1 Male/ *Gabo* *1*
12.3 Female/ *Gore*............... *2*

Section 2: General information on the type and situation of the firm

Igika cya 2: Amakuru rusange ku bwoko n'uko ikigo kimeze

13. What is currently the most pressing problem your firm is facing?

13. Ni ikihe kibazo cy'ingutu ikigo cyanyu gifite muri iki gihe?

13.1 Finding customers/ *Kubona abakiriya*...1
13.2 Competition/ *Gusangira isoko n'abandi*.. *2*

13.3 Access to finance/ *Kubona amafaranga y'igishoro...3*

13.4 Costs of production or labour…….4

13.4Amafaranga y'ibikoreshwa by'ibanze cyangwa yishyurwa abakozi.......................... 4

13.5 Availability of skilled staff or experienced managers…………………………...5

13.5 Iboneka ry'abakozi bafite ubumenyi cyangwa abayobozi babimenyereye............... 5

13.6 Regulation/ *Iyubahirizwa ry'amategeko* 6
13.7 Others (specify)/ *Ibindi [mubigaragaze]..7*

14. The following indicators are relevant for the income generated by your firm. Please tell me whether the following indicators have decreased, remained unchanged or increased over the past 6 months in your company?

14. Ibipimo bikurikira biragaragaza amafaranga yinjijwe n'ikigo cyanyu. Mutubwire niba ibipimo bikurikira byaragabanutse, bitarahindutse cyangwa byariyongereye mu mezi atandatu ashize mu kigo cyanyu?

(Interviewer read out these indicators to respondent/ Ubaza asomera usubiza ibi bipimo)

- ***Increased/ Byariyongereye....................................1***
- ***Remained unchanged/ Ntibyahindutse 2***
- ***Decreased/ Byaragabanutse 3***

14.1 Turnover? /*Igicuruzo cy'umwaka…………... 1 2 3*

14.2 Labour cost (including social contributions)……………………………… ……1 2 3

14.2Imishahara mbumbe y'abakozi (harimo amafaranga yo kwiteganyiriza, kwivuza…1 2 3

14.3 Other cost (materials, energy, other)…………………123

14.3 Ayandi mafaranga y'ibikoresho (ibikoreshwa, ingufu, ibindi)......................1 2 3

14.4 Net interest expenses/ *Inyungu zishyuwe* …………………………………………………….1 2 3
14.5 Profit [= net income after taxes]/ *Inyungu [=amafaranga yinjiye.................................. 1 2 3*

14.6 Profit margin [= difference between selling price and cost price per each unit]………………………………………123

14.6 Inyungu zashyizwe ku ruhande [=ikinyuranyo hagati y'igiciro cy'igurisha n'igiciro cyo kugura kuri buri gicuruzwa kimwe]..1 2 3

15. Would you say that the amount of debt compared to the assets of your company has decreased, remained unchanged or increased over the past 6 months?

15. Mwavugako umwenda wose muwugereranije n'ibyo mutunze wagabanutse, wahindutse, wiyongereye mu igihe cy'amezi atandatu ashize?

[Read out these choices to respondent]/ *[Somera usubiza ibi byo guhitamo]*

15.1 Increased/ *Wariyongereye..1*

15.2 Remained unchanged/ *Ntabwo wiyongereye................. 2*

15.3 Decreased/ *Waragabanutse..3*

15.4 Not applicable, firm has no debt/ *Ntibijyanye, kuko ikigo nta mwenda gifite ……………7*

Section 3: Financing of the firm

Igika cya 3: Uburyo amafaranga akoreshwa n'ikigo aboneka

16. Turning to the financing structure of your firm, to finance normal day-to-day business operations or more specific projects or investments, you can use internal funds and external financing. For each of the following sources of financing, could you please say whether you used them during the past 6 months, did not use them but have experience with them, or did not use them because this source of financing has never been relevant to your firm?

16. Turebye uburyo amafaranga akoreshwa n'ikigo mu bikorwa bya buri munsi cyangwa mu gushora imari aboneka, hashobora kwifashishwa amafaranga bwite y'ikigo cyangwa aturutse ahandi. Kuri buri bwoko bw'uburyo bwo kubona amafaranga akoreshwa, mwatubwira niba mwarigeze mubukoresha mu mezi atandatu ashize, mutarabukoresheje ariko mujya mubukoresha, cyangwa mutarabukoresheje kubera ko ubu buryo butigeze bunogera ikigo cyanyu?

[Interviewer please explain these choices to respondents]

[Ubaza nasobanurire ibyo guhitamo usubiza]

- ***Used in the past 6 months/ Twarabukoresheje mu mezi atandatu ashize............................. 1***
- ***Did not use in the past 6 months, but have experience with this source of financing………………………2***
- ***Ntibwakoreshejwe mu mezi atandatu ashize, ariko dufite uburambe muri ubu buryo bwo kubona amikoro........ 2***
- ***Instrument not applicable to my firm/ Ubu buryo ntibwakoreshwa ku kigo cyanjye.......... 7***

16.1 Retained earnings or sale of assets [internal funds like cash resulting from savings, retained earnings, sales of assets]……………………………………………………..127

16.1 Inyungu zafashwe zongera igishoro cyangwa amafaranga aturuka mu kugurisha imitungo [amikoro y'ikigo yaturutse mu kuzigama, inyungu zafashwe zongera igishoro, kugurisha imitungo]…………………………12 7

16.2 Grants or subsidised bank loan [this may involve support from public sources in the form of guarantees, reduced interest rate loans etc]……………………1 2 7

16.2 Impano cyangwa kudohorerwa ku nguzanyo ya banki [ibi bishobora kuva ku nkunga ya Leta mu buryo bw'ingwate cyangwa kugabanyirizwa inyungu z'ubwishyu n'ibindi....].. 1 2 7

16.3 Bank overdraft, credit line or credit cards overdraft [this is negative balance on a bank account with or without specific penalties]…………………………………………1 2 7

16.3 Inguzanyo ya banki yo kuguha uburenganzi bwo kubikuza kuri konti nta mafaranga ufite ho cyangwa ukabikora ukoresheje ikarita [ibi bituma bakubaraho umwenda bazakwishyuzaho inyungu cyangwa ntazo]..1 2 7

16.4 Bank loan (new or renewal; excluding overdraft and credit lines)……………………………………………………1 2 7

16.4 Umwenda wa banki (mushya cyangwa wongerewe igihe, ukuyemo inguza z'iminsi mike cyangwa ikizere cyo kubikuza kuri konti nta mafaranga ufiteho) ……………………1 2 7

16.5 Trade credit [= purchase of goods or services from another business without making immediate cash payment]…1 2 7

16.5 Inguzanyo y'ubucuruzi [=kugura ibicuruzwa ku wundi mucuruzi utishyuye ako kanya] ………………..……………………..1 2 7

16.6 Other loan (for instance from a related company or shareholders, excluding trade credit; from family and friends)………………………………………………1 2 7

16.5 Izindi nguzanyo (urugero, ku kigo mufite ibibahuza cyangwa abanyamigabane, ukuyemo inguzanyo y'ubucuruzi; ku bavandimwe n'inshuti)... 1 2 7

16.7 Leasing or hire-purchase or factoring [leasing is obtaining the use of a fixed asset eg cars or machinery in exchange of regular payments but without immediate ownership of the asset. Factoring is selling your invoices to a factoring company—the company gets your debt and has to collect it. Company makes a profit by paying you less cash than face value of invoice………………………………………………1 2 7

16.7 Inguzanyo itanga icyo uguze ho ingwate [Ni uguhabwa uburenganzira bwo gutunga umutungo utimukanwa cyangwa imodoka cyangwa imashini wiyemeje kwishyurira igihe mwumvikanye ariko ibyo bintu bitaraba ibyawe ako kanya]. Ukwishyurizwa ni ukugurisha inyemezabuguzi ku kindi kigo gikora akazi ko kwishyuza, icyo gihe amadeni aba ay'acyo kikanayishyuza. Ikigo cyishyuza kibona inyungu kiguha amafaranga make kuyanditse ku nyemezabuguzi................ 1 2 7

16.8 Debt securities issued/*Impapuro z'agaciro ku madeni zashyizwe ku isoko...................1 2 7*

16.9 Subordinated loans, participation loans or similar financing instruments…………………………………………1 2 7

16.9 Inguzanyo zunganira, inguzanyo zo gufatanya cyangwa uburyo busa bwo kubona ubushobozi bw'amafaranga................... 1 2 7

16.10 Equity [Quoted or unquoted shares or other forms of equity provided by owners of external investors to the company] …………………………………1 2 7

16.10 Imigabane y'igishoro [yanditse cyangwa itanditse cyangwa ifite ishusho y'imigabane yatanzwe n'abashoramari batashoye mu kigo]..1 2 7

16.11 Did not use any external financing……………………………………………1 2 7

16.11 Ntabwo twigeze dukoresha amikoro y'amafaranga avuye ahandi …............... 1 2 7

17. For each of the following types of external financing, please tell me if your needs increased, remained unchanged or decreased over the past 6 months?

17. Ukurikije aya moko yinguzanyo ituruka mu bandi, mumbwire niba ibyifuzo byanyu byariyongereye, bitariyongereye cyangwa byaragabanutse mu mezi atandatu ashize?

[Interviewer please read out these options to respondent]

[Ubaza asomere uzubiza ibi bikurikira]

- **Increased/ *Byariyongereye*..1**
- **Remained unchanged/ *Ntibyahindutse* 2**
- **Decreased/ *Byaragabanutse* 3**
- **[INSTRUMENT NOT APPLICABLE TO MY FIRM/]……………………………7**
- ***[NTIBIKORESHWA MU KIGO CYANJYE] 7***

17.1 Bank overdraft, credit line or credit cards overdraft……………………………1 2 3 7

17.1 Uburenganzira bwo kubikuza nta mafaranga ari kuri Konti, inguzanyo idafite ingwate cyangwa gukoresha ikarita ubikuza nta mafaranga ufite kuri konti............... 1 2 3 7

17.2 Bank loans (new or renewal; excluding overdraft and credit lines)………………………………………….1 2 3 7

17.2 Imyenda ya banki (mushya, wongerewe igihe, ukuyemo uburenganzi bwo kubikuza nta mafaranga ari kuri konti n'inguzanyo zidafite ingwate)......... …………………………….1 2 3 7

17.3 Trade credit /*Umwenda w'ubucuruzi*.. *1 2 3 7*

17.4 Equity/ *Imigabane y'igishoro* *1 2 3 7*

17.5 Debt securities issued/ *Impapuro z'agaciro ku madeni zashyizwe ku isoko*................ *1 2 3 7*

17.6 Other [loan from related company, shareholders or family members and friends, leasing, factoring and grants…………………………………………1 2 3 7

17.6 Izindi nguzanyo (urugero, ku kigo mufite ibibahuza cyangwa abanyamigabane, abavandimwe n'inshuti, inguzanyo itanga icyo uguzeho ingwate, ukwishyurizwa n'impano.. 1 2 3 7

18. For each of the following items, would you say that they have increased, decreased, or had no impact on your firm's needs for external financing over the past 6 months?

18. Muri ibi bikurikira, mwatubwira niba byariyongereye, bitarahindutse, yaragabanutse cyangwa ntangaruka byagize mu gushaka inguzanyo z'ikigo cyanyu mu gihe cya mezi atandatu ashize?

[Interviewer read out answer per line/*Ubaza asomere uzubiza igisubizo kuri buri murongo]*

- **Increased needs for external financing/*Ugushaka inguzanyo kwariyongereye*....................1**
- **No impact on needs for external financing………………………………………2**
- ***Ntangaruka byagize mu gushaka inguzanyo hanze y'ikigo……….….….2***
- **Decreased needs for external financing………………………………………..3**
- ***Ugushaka inguzanyo yo hanze y'ikigo kwaragabanutse................................. 3***
- **[NOT RELEVANT, DID NOT OCCUR/ *Ntibijyanye, ntibyabaye]...7***

18.1 Fixed Investment/*Igishoro gihoraho*... *1 2 3 7*

18.2 Inventories and working capital………………………………………1 2 3 7

18.2 Umutungo uzagurishwa n'igishoro gikora gikoreshwa ubu..................................... 1 2 3 7

18.3 Availability of internal funds/*Iboneka ry'amafaranga y'ikigo*..................................... *1 2 3 7*

19. For each of the following ways of financing, could you please indicate whether you: applied for them over the past 6 months; did not apply because you thought you would be rejected; did not apply because you had sufficient internal funds; or did not apply for other reasons? [PROMPT IF NEEDED: Other external financing includes loans from other lenders, equity or debt issuance, leasing, factoring, etc., but excludes overdrafts, credit lines, bank loans and trade credit]

19. *Kuri buri buryo bwo kubona amafaranga akoreshwa n'ikigo, mwatwereka niba mwaragize ubwo mukoresha mu mezi atandatu ashize; ntimwabukoresheje kuberako mwatekerejeko mutakwemererwa; mufite amikoro yanyu ahagije, cyangwa hari izindi mpamvu? [Mwihute niba bikenewe: inguzanyo harimo inguzanyo zituruka kubaguriza, imigabane y'igishoro cyangwa impapuro z'agaciro zemezako bakugomba umwenda zakozwe, inguzanyo itangaho ingwate icyo wayiguzemo, ku kwishyuriza imyemezabuguzi, n'ibindi...., ariko ukuyemo uburenganzira bwo kubikuza nta mafaranga ufite kuri konti,inguzanyo zidafite ingwate, inguzanyo za banki n'inguzanyo z'ubucuruzi]*

[Interviewer please read out these options to the respondent]

[Ubaza asomere ubazwa ibi bikurikira]

- **Applied /*Twarasabye*..1**
- **Did not apply because of possible rejection……………………………………2**
- ***Ntibyakoreshejwe kuko twashoboraga guhakanirwa...................................... 2***
- **Did not apply because of sufficient internal funds…………………………….3**
- ***Ntibyakoreshejwe kuko dufite amikoro ahagije..3***
- **Did not apply because could not meet documentation required….4**
- ***Ntibyakoreshejwe kuko ntitwari kubona ibisabwa……………………….4***
- **Did not apply because of lack of collateral/security/………………………5**
- ***Ntibyakoreshejwe kuko twabuze ingwate.. 5***

19.1 Bank overdraft, credit line or credit cards overdraft……………….……….1 2 3 4 5

19.1 Uburenganzira bwo kubikuza nta mafaranga ari kuri Konti, inguzanyo idafite ingewate cyangwa gukoresha ikarita ukazishyura mu minsi mike................ 1 2 3 4 5

19.2 Bank loan (new or renewal; excluding overdraft and credit lines)…………1 2 3 4 5

19.2 Imyenda ya banki (mushya, wongerewe igihe; ukuyemo uburenganzi bwo kubikuza nta mafaranga ari kuri konti n'inguzanyo zidafite ingwate)………………………………1 2 3 4 5

19.3 Trade credit/ *Inguzanyo z'ubucuruzi 1 2 3 4 5*

19.4 Other external financing/*Izindi nguzanyo zitari iz'ikigo... 1 2 3 4 5*

20. If you applied and tried to negotiate for this type of financing over the past 6 months, did you: receive all the financing you requested; receive only part of the financing you requested; refuse to proceed because of unacceptable costs or terms and conditions; or have you not received anything at all? [PROMPT IF NEEDED: Other external financing includes loans from other lenders, equity or debt issuance, leasing, factoring, etc., but excludes overdrafts, credit lines, bank loans and trade credit]

20. Niba waratse ubu bwoko bw'inguzanyo mu mezi atandatu ashize, waba: warabonye inguzanyo yose wifuzaga; ese wabonye igice; wanze gukomeza kubera ikiguzi cyangwa uburyo n'ingaruka; ntacyo wabonye? [Mwihute niba bikenewe: inguzanyo harimo inguzanyo zituruka kubaguriza, imigabane y'igishoro cyangwa impapuro zagaciro zemezako bakugomba umwenda zakozwe, inguzanyo itangaho ingwate icyo wayiguzemo, inguzanyo zidafite ingwate, imyenda ya banki, n'inguzanyo z'ubucuruzi

[Interviewer read these options to respondent/ *Ubaza asomere ubazwa ibi bikurikira]*

- **Applied and got everything/ *Twarayisabye tunayibona yose....................................... 1***
- **Applied and got most of it [BETWEEN 75% AND 99%]…………..2**
- ***Twarayisabye tuyibona ku rugero [hagati 75% na 99%]........................ 2***
- **Applied but only got a limited part of it [BETWEEN 1% AND 74%]……..3**
- ***Twarayisabye tubona nkeya kuyo twasabye [hagati 1% na 74%]………3***
- **Applied but refused because cost too high/ *Twarayisabye ariko dusanga irahenze...........4***
- **Applied but was rejected/ *Twarayisabye ariko ntitwayemererwa.. 5***

20.1 Bank overdraft, credit line or credit cards overdraft………………………….1 2 3 4 5

20.1 Uburenganzira *bwo kubikuza nta mafaranga ari kuri Konti, Inguzanyo idafite ingwate cyangwa kubikuza ukoresheje ikarita ukazishyura mu minsi mike…………. 1 2 3 4 5*

20.2 Bank loan (new or renewal; excluding overdraft and credit lines)…………..1 2 3 4 5

20.2 *Imyenda ya banki mishya, yongerewe igihe, Inguzanyo idafite ingwate n'uburenganzi bwo kubikuza nta mafaranga ari kuri konti cyangwa kubikuza ukoresheje ikarita ukazishyura mu minsi mike)................ 1 2 3 4 5*

20.3 Trade credit/ *Inguzanyo z'ubucuruzi…………………………………….…………… 1 2 3 4 5*

20.4 Other external financing/ *Izindi nguzanyo.. 1 2 3 4 5*

21. For each of the following ways of financing, would you say that their availability has improved, remained unchanged or deteriorated for your firm over the past 6 months?

21. Kuri ubu buryo bwo kubona ubushobozi, mwatubwira niba bwariyongereye, butarahindutse cg bwararushijeho kuba bubi ku kigo cyanyu mu mezi atandatu ashize?

[Interviewer read these options to respondent/ *Ubaza asomera ubazwa ibi bikurikira]*

- **Improved/ *Bwariyongereye...1***
- **Remained unchanged/ *Ntacyahindutse* *2***
- **Deteriorated/ *Byaragabanutse* *3***

21.1 Bank overdraft, credit line or credit cards overdraft…………………………………1 2 3

21.1 Inguzanyo idafite ingwate, uburenganzira bwo kubikuza ntamafaranga ari kuri Konti cyangwa kubikuza ukoresheje ikarita ukazishyura mu minsi mike 1 2 3

21.2 Bank loans (new or renewal; excluding overdraft and credit lines)…1 2 3

21.2 Imyenda ya banki (mushya, wongerewe igihe, ukuyemo Inguzanyo idafite ingwate n'uburenganzi bwo kubikuza nta mafaranga ari kuri konti cyangwa kubikuza ukoresheje ikarita ukazishyura mu minsi mike).......... 1 2 3

21.3 Trade credit/ *Inguzanyo z'ubucuruzi.. 1 2 3*

21.4 Equity/ *Imigabane y'igishoro.. 1 2 3*

21.5 Debt securities issued/ *Impapuro mpamo zigaraza umwenda…….................................. 1 2 3*

21.6 Other [loan from related company or shareholders and from family and friends, leasing, factoring, grants]…….1 2 3

21.6 Izindi nguzanyo (urugero, ku kigo mufite ibibahuza cyangwa abanyamigabane, abava-ndimwe n'inshuti, inguzanyo itanga icyo ugu-zeho ingwate, ukwishyurizwa n'impano…1 2 3

22. The availability of external financing depends on various factors, which are in part related to the general economic situation, to your company's situation and to lenders' attitudes. For each of the following factors, would you say that they have improved, remained unchanged or deteriorated over the past 6 months?

22. Iboneka ry'inguzanyo rifatira ku bintu byinshi, mu ruhande rumwe bifatiye ku imitere y'ubukungu n'imyitwarire y'uguriza. Kuri ubu buryo bukurikira, mwatubwira niba byaragenze neza, bitarahindutse, byaragenze nabi mu mezi atandatu ashize?

[Interviewer read out these options to respondent/ *Ubaza asomera ubazwa ibi bikurikira]*

- **Improved/ *Bwabaye bwiza.................................1***
- **Remained unchanged/ *Ntacyahindutse*.............*2***
- **Deteriorated/ *Bwagenze nabi* *3***

22.1 General economic outlook, insofar as it affects the availability of external financing…………………………………….…….1 2 3

22.1 Intumbero y'ubukungu, kuko iboneka ry'inguzanyo rishingiye kuri bwo........ 1 2 3

22.2 Access to public financial support including guarantees…………………………1 2 3

22.2 Kugira uburenganzira ku nkunga y'amafaranga ya Leta harimo ingwate..... 1 2 3

22.3 Your firm-specific outlook with respect to your sales and profitability or business plan, insofar as it affects the availability of external financing for you……………………………………………. 1 2 3

22.3 Intumbero yihariye y'ikigo cyanyu ifatiye ku mafaranga mwacuruje cyangwa ku inyungu cyangwa umugambi w'ubucuruzi, nkuko bifatiye ku iboneka ry'inguzanyo kuri mwe.. 1 2 3

22.3 Your firm's own capital/ ***Igishoro bwite cy'ikigo cyanyu.. 1 2 3***

22.5 Your firm's credit history/ ***Amateka y'inguzanyo ku kigo cyanyu.................................. 1 2 3***

22.6 Willingness of banks to provide a loan……………………………………………………1 2 3

22.6 Ugushaka kwa banki mu gutanga inguzanyo………………………………...… 1 2 3

22.7 Willingness of business partners to provide trade credit……………….............*123*

22.7 Ubushake bw'abafatanya bikorwa mu gutanga inguzanyo ku bucuruzi………….. 1 2 3

22.8 Willingness of investors to invest in equity or debt securities issued by your firm ………………………………………………1 2 3

22.8 Ubushake bw'abashoramari mu kugura imigabane y'igishoro cyikigo cyangwa impapuro z'umwenda w'ikigo.................. 1 2 3

23. We will now consider the terms and conditions of the bank financing (including bank loans, overdraft and credit lines) available to your firm. For each of the following items, could you please indicate whether they were increased, remained unchanged or were decreased over the past 6 months?

23. Turebye ibisabwa n'amabanki mu kubona inguzanyo, (harimo inguzanyo za banki, uburenganzira bwo kubikuza nta mafaranga ufite kuri konti, n'inguzanyo zidafite ingwate) zitangwa ku kigo cyanyu. Kuri ibi bikurikira, mwakwerekana niba byariyongere, bitarahindutse cyangwa byaragabanutse mu mezi atandatu ashize?

[Interviewer read out these options to respondent/ ***Ubaza asomera ubazwa ibi bikurikira]***

- **Was increased by the bank /** ***Banki yarabyongereye..1***
- **Remained unchanged /** ***Ntabwo byahindutse...2***
- **Was decreased by the bank/** ***Banki yarabigabanuye..3***

23.1 Level of interest rates/ ***Igipimo cy'ijanisha ry'inyungu zishyurwa................................. 1 2 3***

23.2 Level of the cost of financing other than interest rates [CHARGES, FEES, etc]…………………………………………….…......1 2 3

23.1 Igipimo cy'ibyo kubona inguzanyo bigutwara uretse inyungu ku nguzanyo [ibyo usabwa, amafaranga yishyurwa, n'ibindi..1 2 3

23.3 Available size of loan or credit line…………………………………………………1 2 3

23.3 Ingano y'iboneka ry'inguzanyo cyangwa inguzanyo idafite ingwate......................... 1 2 3

23.4 Available maturity of the loan/ ***Igihe inguzanyo izishyurirwa 1 2 3***

23.5 Collateral requirements/ ***ibisabwa ku ngwate ……………………….……………….. 1 2 3***

23.6 Other, e.g. loan covenants, required guarantees, information requirements, procedures, time required for loan approval………………………………1 2 3

23.6 Ibindi, urugero: Amasezerano y'ingwate, ibisabwa ku ngwate, amakuru asabwa, inzira bicamo, igihe bisaba kugirango inguzanyo uyemererwe... 1 2 3

24. For each of the following types of financing available to your firm, could you please indicate whether you think their availability will improve, deteriorate, or remain unchanged over the next 6 months?

24. Kuri buri bwoko bukurikira bwo kubona ubushobozi ku kigo cyanyu, mwatubwira niba mutekerezako iboneka rizagenda riba ryiza, riba ribi, ridahinduka mu mezi atatandatu akurikira?

[Interviewer please read out these options to respondent/ ***Ubaza asomera ubazwa ibi bikurikira]***

- **Will improve/** ***Bizaba byiza 1***
- **Will remain unchanged/** ***Bizaguma uko biri.....................2***
- **Will deteriorate/** ***Bizaba bibi kurushaho...........................3***

24.1 Retained earnings or sale of assets [INTERNAL FUNDS]……………………………1 2 3

24.1 Gufatira amafaranga yungutswe ukayashyira mu gishoro cyangwa kugurisha iby'ikigo gitunze [Amikoro y'ikigo ubwacyo]... 1 2 3

24.2 Bank overdraft, credit line or credit cards overdraft…………………………………1 2 3

24.2 uburenganzira bwo kubikuza nta mafaranga ufite kuri konti, inguzanyo idafite ingwate cyangwa kubikuza ukoreshe ikarita ukazishyura mu minsi mike…….….….. 1 2 3

24.3 Bank loans (new or renewal; excluding overdraft and credit lines)…1 2 3

24.3 Inguzanyo za banki (nshya cyangwa zongerewe igihe; ukuyemo ikizere cyo kubikuza nta mafaranga ari kuri konti n'inguzanyo zidafite ingwate)........... 1 2 3

24.4 Trade credit/ ***Inguzanyo z'ubucuruzi... 1 2 3***

24.5 Equity/ ***Imigabane y'igishoro... 1 2 3***

24.6 Debt securities issued/ ***Impapuro z'agaciro zigaragaza umwenda.......................... 1 2 3***

24.7 Other [loan from related company or shareholders and from family and friends, leasing, factoring, grants]…1 2 3

24.7 Izindi nguzanyo (urugero, ku kigo mufite ibibahuza cyangwa abanyamigabane, abava-ndimwe n'inshuti, inguzanyo itanga icyo ugu-zeho ingwate, ukwishyurizwa n'impano… 1 2 3

Section 4: Knowledge of SMEs about Capital Markets

Igika cya 4: Ubumenyi bw'ibigo bito n'ibiciriritse kubyerekeranye n'amasoko y'imari n'imigabane.

25. Is your company considering using capital markets financing in the near future?

25. Ikigo cyanyu cyaba giteganya gukoresha amafaranga avuye mu isoka ry'imari n'imigabane mu bihe byavuba?

1=Yes/ *yego*
2=No/ *Oya*

26. Is your company familiar with know how capital markets work?/

26. Ikigo cyanyu gifite ubumenyi ku mikorere y'amasoko y'imari n'imigabane?

1=Not Familiar/ *Nta bumenyi gifite*
2=Familiar/ *Yego ubumenyi kirabufite*
3=Very Familiar/ *Yego ubumenyi kirabufite buhagije*

27. Is your company familiar with the listing requirements on the stock market?

27. Ikigo cyanyu gifite ubumenyi ku bisabwa mu kwiyandikisha mu isoko ry'imigabane?

1=Not Familiar/ *Nta bumenyi gifite*
2=Familiar/ *Yego ubumenyi kirabufite*
3=Very Familiar/ *Yego ubumenyi kirabufite buhagije*

28. Is your company aware of the benefits of issuing shares to the public?

28. Ikigo cyanyu kizi ibyiza byo gushyira ku isoko imigabane?

1=Yes/ *yego*
2=No/ *Oya*

29. Does your company comply with international best practices in corporate governance based on whether board committees are present

29. Mwaba mwubahiriza amabwiriza mpuzamahanga mu gucunga ikigo cyanyu? (amakomite acunga imikorere)

1=Yes/ *yego*
2=No/ *Oya*

30. What is the proportion of funds used in your company for long-term financing?

30. Ni uruhe ruhare rw'amafaranga y'igihe kirekire mu yo ikigo cyanyu gikoresha?(%)

31. What is the effect of capital markets application fees on a company's decision to access the capital markets?

31. Amafaranga yakwa ikigo mu gihe gishaka kujya ku isoko ry'imari n'imigabane agira ngaruka ki ku ngamba zacyo zo kwinjira kuri iryo soko?

1=Positive/ *Ni nziza*
2=Negative/ *Ni mbi*
3=No Effect/ *Ntazo*

32. What is the effect of stock exchange listing fees on a company's decision to access the capital markets?

32. Amafaranga yakwa ku kwiyandikisha kuri listi y'isoko ry'imigabane agira ngaruka ki ku ngamba zo zo kwinjira kuri iryo soko?

1=Positive/ ***Ni nziza***
2=Negative/ ***Ni mbi***
3=No Effect/ ***Ntazo***

33. What is the effect of professional fees during the IPO on a company's decision to access the capital markets?

33. Amafaranga yakwa ku kunoza akazi mu gihe cyo gushyira imigabane bwambere ku isoko, agira ngaruka ki ku ngamba zo kwinjira kuri iryo soko?

1=Positive/ ***Ni nziza***
2=Negative/ ***Ni mbi***
3=No Effect/ ***Ntazo***

34. What is the effect of Administration fees after the IPO on a company's decision to access the capital markets?

34. Ni izihe ngaruka z'Amafaranga y'ubuyobozi yakwa nyuma yo gushyira imigabane bwa mbere ku isoko, agira ngaruka ki ku ngamba zo kwinjira kuri iryo soko?

1=Positive/ ***Ni nziza***
2=Negative/ ***Ni mbi***
3=No Effect/ ***Ntazo***

35. Do you use professional services for your accounting and legal fees?

35. Mwaba mujya mukoresha Serivisi z'abanyamwuga mu bijyanye n'ibaruramari?

1=Yes
2=No

36. If Yes, what professional services do you use?

36. Niba ari Yego, n'iyihe serivisi Mukoresha?

1=Accountants
2=Lawyers
3=Others (Please specify …………………………………………)

37. Does your company export its goods and services or receive some of its revenues in foreign exchange?

37. Ikigo cyanyu cyaba kijya Kijyana cyangwa se kinjiza mu Rwanda zimwe mu nyungu z' ikigo mu bindi bihugu?

1=Yes
2=No

38. What is the size of the capital invested in your business?

38. Amafaranga mwashoye m'ub curuzi bwanyu, angana ate?

Amount ……………………………………….RWF

39. What is the total value of the assets owned by the company?

39. Ni ikihe giteranyo cyaho umu tungo w'ikigo cyanyu

uherereye (Actif)?

Amount……………………………………..RWF

Thank you for taking your time to respond to the questions.

Murakoze kwigomwa igihe cyanyu mugasubiza ibi bibazo.

Appendix 3: Bank Questionnaire

LEVERAGING CAPITAL MARKETS FOR SME FINANCING IN RWANDA

African Development Bank

Survey on the access to finance of SMEs

April 30th to May 11th 2012

STRICTLY CONFIDENTIAL SME QUESTIONNAIRE

We are from The African Development Bank Rwanda Field Office. We are carrying out a survey on SMEs and their accessibility to formal financial capital markets. You have been selected to participate in this assessment given the role played by your financial institution in providing financial capital to SMEs. All the information we obtain will remain confidential and will not be shown to any other person or firm. We would very much appreciate your participation in the survey, but participation is voluntary and you can choose not to answer any of the questions or all of them. However, we hope that you will participate in this survey since your views are important. The results of the survey will be important for the key stakeholders and SMEs to improve the access to finance for SME.

1. **For how long have you been providing financial instruments tailored to SMEs**

   …………………..

2. **What is the Bank's definition of an SME and what criteria do you use to categorize them?**

   ………………………….

3. **The following are some of the key obstacles to Bank involvement with SMEs: You are required to state the following options on each individual line (For serious obstacle indicate (S), Not serious obstacle indicate (N))**

   SMEs are very informal (S, N)

   The scoring used is not tailored to SMEs (S, N)

   Difficult to get bankable projects from SMEs (S, N)

   Transaction costs so high for providing SME financing (S, N)

   Governance structure of SMEs and being family owned is a problem (S, N)

   Legal framework (including bankruptcy laws) not appropriate (S, N)

   The paper work required by banks is excessive for SMEs (S, N)

4. **What kind of financial instruments do you provide to SMEs**

   4.1 Asset or Leasing finance

   4.2 Loans

   4.3 Equity investment

   4.4 Others (please specify)

5. **What methods do you use to target the SME market? Please list them**
   5.1 ………………………………..
   5.2 ………………………………..
   5.3 ………………………………..

   5.1.

6. **What is the proportion of loans given to SMEs relative to your total loan portfolio?**
   …………………………………………….

7. **What is the proportion of deposits to your total bank deposits**
   ……………………………………………..

8. **What is the average interest loan charged on your loans tailored to SMEs?**
   ……………………………………………..

9. **What are the key products most demanded by SMEs and in what proportion?**
   ……………………………………………..

10. **What is the average term of the key lending products provided to SMEs?**

…………………………………………….

11. **What is the average grace period provided to SMEs on principal payments?**

    ……………………………………………..

12. **What form of collateral is required from SMEs to access your financial products?**
    Land
    Movable Assets
    Buildings
    Equipment
    Others (specify)

13. **What specific roles should the government do to enhance SME lending**

    Create specialized funds for SMEs (YES, NO)
    Create guarantee schemes for financial products lent to SMEs (YES, NO)
    Credit enhancement programs (YES, NO)
    Change the regulatory environment to enhance SMEs (YES, NO)

14. **What is your impression on the size and prospects of the SME market**

    Big market with good prospects

    Small market with good prospects

    Big market with poor prospects

    Small market with poor prospects

15. **What are the banks views on credit worthiness of SMEs**

    Very risk sector

    Moderately risk sector

    Not risky sector

16. **What is the default rate of the SMEs in your Bank**

    ………………………percent

17. **How competitive and saturated is the SME lending market**

    Competitive and highly saturated

    Competitive but not saturated

    Not competitive

18. **Who are the major lenders to SMEs**

    Large banks

    Foreign Banks

    Small Banks

    Informal money lenders

    Others (specify)….……………………..

19. **Does the bank lend to a specific sector for SMEs (Yes, No)**

20. If yes, which sector

Agriculture

Manufacturing

Construction

Whole sale/ retail trade

Tourism

Others (specify)…………….

21. What methods does the Bank use to identify new SME clients

22. Use existing depositors

23. Run outreach programs

24. Staff is hired to attract new SMEs

25. What methodologies do you use to screen SME applicants

Scoring model methods

Assessment done manually based on information provided by SME

Others (specify)……………………

26. What are the key requirements for an SME to get financing from your Bank?

Business plan

Existing Cash flow

Prior relationship with Bank

Collateral

Credibility of promoters

Others (specify)

27. What are the main factors taken into consideration when lending to an SSME

Credit history of SME

Indebtedness of SME

Sales evolution

Profitability of company

Others (specify)

28. What are the key challenges of lending to SMEs

Difficult to get information about SME performance

Difficult to monitor performance of small SMEs given their large number

SMEs are more unstable in their performance

SMEs are more difficult to prosecute

SMEs have governance challenges

Other (specify) …………………………….

29. **Does the bank has any credit limits for SMEs (YES, No)**
30. **If yes, what is the limit**

    ………………………………………..

31. **Does the regulatory requirement of secured loans affect SME lending? (YES, No)**
32. **Are there any other regulations that affect SME lending? If Yes specify……………..**
33. **Does the bank run any training programs for its staff on how to handle SME clients (Yes, No)**
34. **Please describe how lending to SMEs can be enhanced through your Bank.**

Thank you for taking your time to fill this questionnaire.