

# Raising Productivity and Reducing the Risks of Household Enterprises in Rwanda



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# ACRONYMS

ADEPR	Association des Eglises Pentecôtes du Rwanda
ADRA	Adventist Development Relief Agency
ADTS	Association for Social Transformation
AFMD	Association of Muslim Women for Development
AGOA	Africa Growth Opportunity Act
AJPRODHO	Youth Association for Human Rights Promotion and Development
BDS	Business Development Service
BHR	Banque de l' Habit Rwanda
BNR	Banque Nationale du Rwanda
BPB	Union des Baanques Populaire du Rwanda
BRD	Banque Rwandaise de Developpment
CDHR	Continental Discounting House, Rwanda
CHAMP	Community HIV/AIDS Mobilization Program
CHF	Cooperative Housing Foundation
CHH	Child Headed Households
CITT	Centre for Innovation and Technology Transfer
CRS	Catholic Relief Services
EDPRS	Economic Development and Poverty Reduction Strategy
EICV	Integrated Living Conditions Survey
FAL	Functional Adult Literacy Learning
HEs	Household Enterprises
IDHS	Interim Demographic and Health Survey
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IPAR	Institute of Policy Analysis and Research Rwanda
MFI	Micro Finance Institution
MINEDUC	Ministry of Education
MINICOM	Ministry of Trade and Industry
MSME	Micro, Small and Medium Sized Enterprise
MSE	Micro and Small Enterprise
NCA	National Cooperative Authority
NGO	Non Government Organization
NISR	National Institute of Statistics of Rwanda

NSC	National Steering Committee
NUFFIC	Netherlands Universities Foundation for International Cooperation
OCA	Outreach Change Agent
ODP	Overseas Development Partner
OVC	Orphans and Other Vulnerable Children PPP
MER	Project pour la Promotion des Petites et Micro Entreprises Rurales
PSF	Private Sector Federation
RCA	Rwanda Cooperative Agency
RDB	Rwanda Development Board
RICP	Rwanda Investment Climate Project
RIREP	Rwanda Integrated Rural Project
SACCO	Savings and Credit Cooperative
SILC	Savings and Internal Lending Communitie
SME	Small and Medium Enterprise
SNV	Netherlands Development Organization
TBIF	Technology and Business Incubation Facility
TVET	Technical and Vocational Education and Training
UNIDO	United Nations Industrial Development Organization
USADF	United States African Development Foundation
UOB	Urwego Opportunity Bank of Rwanda
VSLA	Village Savings and Loan Association
VUP	Vision 2020 Umurenge Project
W4W	Women for Women
WDA	Workforce Development Authority

# PREFACE

This report was prepared in 2011, using (i) special purpose qualitative and quantitative data collected in 2010, and (ii) nationally representative household survey data collected in 2005/6 (EICV2). The findings were presented in the Rwandan Economic Update Report of November 2011.

As this full report was going to press, the Government of Rwanda announced initial results from the nationally representative household survey of 2010/11. These showed important progress in poverty reduction and household welfare since the 2005/6 data. According to these data, an estimated 45 percent of Rwandan households were in poverty during this period, compared with an estimated 57 percent in 2005/6. The preliminary data also showed an increase in the share of non-farm employment in total employment, suggesting a continuing transformation in the structure of employment.

These new survey data have not yet been released to the public or to researchers. When they are released, the study team recommends that the quantitative analysis presented here on the structure of employment and the role of Household Enterprises in the national economy be updated in a supplementary report.

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We also thank all the local authority officials who assisted us with our research and were especially helpful in enabling us to locate HE operators in their areas. They gave generously of their time and provided us with valuable information. The leaders of civil society projects providing support for HEs and other key informants also cooperated with us.

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# SUMMARY

**Rwanda's economic development goals include providing full and productive employment to the labor force, and ensuring that poorer households, along with the rich, benefit from economic growth.**

This requires raising the productivity of all sectors of the economy. This includes the part of the economy which is household based – household farms and enterprises, which are the livelihood of at least 80 of households. To date Rwanda has an agricultural strategy, but no coherent strategy specifically directed towards the development of household enterprises. This means that there is no specific strategy for a sector which was an important source of income for nearly 30% of households in 2006.

The study of household enterprises (HEs) in Rwanda aims to contribute to the development of a national strategy to promote the growth and reduce the risks of these enterprises. Towards this objective, the study seeks to: (i) provide a profile of household enterprises and determine their role in the national economy, (ii) analyze constraints to their growth and productivity, and (iii) review policies to identify areas where they can be redesigned so that HEs can contribute significantly towards achieving Rwanda's development targets. The key findings of the study are summed up below.

## **Household enterprises and the national economy**

**Rwanda is going through an economic transformation, with declining agriculture as a share of GDP amidst high and steady economic growth.** Rwanda seeks to transform its economy into a modern one, including the development of a highly productive, export oriented service economy. Over the period 1994 to 2009, GDP per capita increased by 6 percent annually on average, with most of the decline in agriculture being eclipsed by an increasing share of the service sector in GDP. With growth, the share of the population under the poverty line declined between 2000 and 2006, even though the number of poor people increased as the overall population grew.

**The structure of employment and livelihoods was also transformed.** Between 2000, and 2006, the share of the employed reporting smallholder agriculture as primary employment fell, as did the absolute number while non-agricultural employment expanded as a share of the labor force. In the non-agricultural sector the new primary employment jobs were created equally in both the *private wage segment* and the *household enterprises segment*

**Household Enterprises (HEs) are activities providing goods and services that are run out of the household, usually by one family member although they may incorporate other family members in their operation.** They do not employ non-family wage laborers or have employees. The majority of them are located in rural areas in farming households which account for the large percentage of Rwanda's households.



**Between 2000 and 2006, the number of households reporting more than one earned income source doubled, and the additional source was most likely to be non-agricultural.** In some households in rural areas, one member of the household left the family farm for wage employment on commercial farms (18 percent of all two income households in 2006), but for many households, an extra income meant adding an HE to their other income earning activities (60 percent of all two income households have an HE. This means that the primary employment data underestimate the size and importance of the sector.

**The majority of HEs (86 percent) operate in the service sector,** reflecting both the high growth of the service sector, and the tendency of HEs to operate in this sector. Within the service sector, the single most important activity is wholesale and retail trading, in which female HE operators are most likely to be found. Male operators also engage in trading, but they are more dominant in transport, communication, and other service jobs.

**While the evidence of the effectiveness of HEs in poverty reduction in Rwanda is limited, HE ownership is positively associated with increased household income.** This positive correlation, however, is not evidence that HEs reduce poverty because it is not clear whether HEs make households richer, or whether already better-off households with access to capital start HEs. What is evident is that HE ownership is concentrated in the upper consumption quintiles.

#### **Profile of household enterprises: Who operates them and why**

**The likelihood of owning an HE increases as people gain more education, but falls dramatically after they complete secondary education.** In 2006, most of the labor force with less than complete secondary declared their primary activity to be agriculture (either wage or non-wage). While HE owners tend to have more education than those in agriculture, this does not mean that HE owners are highly educated, as the majority of them either had never attended school or had not completed primary schooling.

**The youth are less likely to be HE owners.** The probability of owning an HE increases steadily with age, but starts to drop at around 39 years of age. Rwanda's youth tend to be more educated than those from older generations, and are therefore more likely to get a better paying wage job. They also may have more trouble getting capital to start an HE. Nonetheless, since the youth (15 to 24) made up almost 35 percent of the total population, many HE owners (27 percent) were in fact relatively young.

**Both "push" and/or "pull factors" play a role in the decision of households to start up their own HE.** The perceived opportunity to earn a better living through HEs, the ease of entry into the sector, and the desire to be one's own boss ("pull" factors), as well as inability to find any other job options, lack of land, and lack of education and/or skills ("push factors") are what drive households to start their HE. In focus group interviews, HE owners in rural areas tended to cite push factors, while those in urban areas cited both.

**Most HE owners in Rwanda interviewed last year for this study found running an HE a satisfactory way to make a living, and the majority are satisfied with their earnings.** This is not surprising, as HE

earnings were on average higher than those in agriculture, which is usually the alternative economic activity for HEs. But many HE owners would like to do better. Reflecting the low level of education in the Rwandan labor force, the majority of HE owners had only some primary education in 2006, and are not likely to qualify for higher paying non-agricultural wage and salary jobs outside the household. So they need to improve their business to improve their income.

**Education, business skills, and training play a big role in determining HE earnings.** If an HE owner was able to complete primary school graduates the 2006 data show that they are likely to earn on average 40 percent more, and those who have some secondary education 75 percent more. Post-school technical and vocational training also had a positive effect on HE earnings, although only less than one quarter of HEs were able to access this training.

### **Constraints and Risks to HEs**

**In starting up an HE, the main challenge is finding the capital and a suitable location to work.** One in five HE operators reported lack of market access, and another 20 percent cited inadequate capital as their main constraints. They reported not applying for formal credit because of their perceived inability to meet the loan requirements or to pay the interest. Thus, only 2.5 percent of HEs used credit from formal lending institutions; most rely on their personal savings or on family and/or friends for their start-up capital.

**In operating and growing their HE, owners are constrained by lack of access to workspace, finance, skills, and infrastructure.** An astonishing 90 percent of MSE owners (including HEs) cited lack of financing as a major constraint to business operations and expansion. Securing workspace in locations close to foot traffic was also an important issue. This is often impeded by planning regulations, restricting HE activity to limited designated areas. Lack of transport infrastructure, cost of electricity, and high taxes are also viewed as barriers to HE operations. Two-thirds of participants in interviews reported paying taxes or fees to local authorities (mostly *patente*), and 90 percent of the MSEs surveyed by FIAS paid local taxes, but they saw little returns for these payments in terms of adequate service provision and local government support, particularly in the urban areas.

### **Policy options**

**The development policies and programs of the Government of Rwanda clearly recognize that enterprise creation, growth, and sustainability are crucial to its poverty reduction and economic growth objectives.** However, very little attention is given to HEs, reflecting a general lack of understanding of their potential to make a significant contribution towards achieving these objectives. Rwanda's development strategies, while supportive of informal and small enterprises in general, do not recognize HEs as key economic actors. They are either not differentiated from micro and small enterprises (MSEs), or they are excluded entirely from Government support (e.g., the SME policy is limited to enterprises with hired labor). With no explicit policy framework for promoting their development, HEs are largely overlooked and their specific needs left unaddressed. There are a number

of initiatives in support of microenterprises and HEs, but no single institution is tasked with coordinating them.

**Although not directly targeted at HEs, Rwanda’s development policies, as embodied in its Vision 2020 and EDPRS, nevertheless provide scope for supporting the HE sector.** Vision 2020 explicitly promotes private sector development, and recognizes the informal sector as a key part of the economy. The EDPRS places a strong emphasis on the importance of creating non-farm employment, and its Vision 2020 Umurenge Program (VUP) has the potential to stimulate not only the creation of HEs, but also demand for their products. A key EDPRS flagship program aims to strengthen local government accountability (*Imihigo*) through community participation, in which HEs can have their ‘voice’ heard. Thus, these policies are oriented towards developing a conducive environment for enterprise growth, on which a national HE strategy can be built. The Government needs to develop a specific policy framework which supports HE growth and removes some of the constraints that currently hold these enterprises back.

***Accountability and Access to Location: The local economic environment is a key factor in HE growth and development.*** Rwanda’s decentralization policy has devolved responsibilities for land use planning, and the design and implementation of small infrastructure investments to local governments. For the most part, local authorities have been more restrictive, rather than facilitative of HE operations, limiting the latter’s activities to designated marketplaces for which they collect market fees. Operating outside of these locations, particularly in central business districts, is often prohibited, and noncompliance results in police harassment or punitive punishments (e.g., confiscation of merchandise), or steep fines. *Policy changes at the national level that explicitly recognize the importance of HEs can legitimize their operations to local officials.* Only when this occurs can there be a more positive environment in which local authorities and HEs can resolve conflict. This requires changes not only in local planning regulations, but also to the approach and attitude of local officials who enforce them.

***Access to Credit and Financial Services: Since poor access to credit and / or its high cost are the major constraints to the start-up, operations, and expansion of HEs, addressing these constraints could have a strong effect on their growth.*** What are needed are new financial products that are affordable and suitable to the needs of HEs. The implementation of the new Umerenge SACCOS program, the cornerstone of the Government’s ambitious financial access and savings mobilization strategy, is a step forward in the development of a supportive HE strategy. Other possibilities are to support the expansion of mobile banking and mobile money services, which provide a cheaper way for financial services to reach households. Equally important is enhancing the capacity of HEs for financial management so that they would qualify for a loan, through training in basic business and financial planning that can be an integral part of the financial access program.

***Access to markets: Because of their small size, HEs struggle with market access.*** The Government has agricultural, trade, and industrial policies designed to increase market access, but these are not targeted at HEs. The only national sector strategy that targets HEs is the Rwanda Craft Industry Sector Strategic Plan (RCISSP), but it has had only one major success to date, raising questions on whether this is a

replicable model. Helping HEs with market access may require new approaches, such as working through NGOs or HE associations. If the trading sector were to be well supported, large companies would want to use these informal channels to market their products, in much the same way mobile phone companies do now.

**Associations of HEs: One of the biggest challenges governments, NGOs, and other stakeholders face in supporting HEs is the difficulty to cater to a large number of HEs across Rwanda.** Facilitating HEs to organize themselves into associations at the national and local levels can provide a useful channel through which they can have a strong voice to represent their interests when framing policies that directly affect them. At the sectoral level (e.g., association of traders, hairdressers, etc.), membership can provide support services, such as credit, training, market information, and advocacy. But since HEs within a sector tend to be very competitive and may not have the same need for shared services (e.g., occasional use of equipment) as farmers do, for example, local organizations across sectors might work better for HEs.

**Training and Capacity Building: While Rwanda has a well developed training sector, HEs reports that they have not benefitted from enough training opportunities tailored specifically to their needs.** Developing the skills of the labor force is a government priority. A new policy framework for workforce training was recently developed, which covers HEs as potential beneficiaries. **Rwanda has both public and private training entities, which seems to benefiting HEs that are able to access it.** Of most relevance to HEs are the Vocational Training Centers (VTCs), which provide training for primary school graduates in crafts and trades common to the HE sector, such as tailoring, hairdressing, masonry, woodworking, and carpentry. Our analysis of HE earnings showed positive returns in 2006 to both (i) post-primary training, and (ii) apprenticeships, indicating the sector is having some success. **Rwanda's training sector is heavily focused on providing technical skills,** as opposed to financial knowhow. However, in FGDs, most HE owners expressed the need for training in financial and business skills – in order to access financial services.

**Training is only effective when there is demand HEs products and services.** This means that until other issues affecting HEs are resolved (e.g., access to work locations and financing), training may not have the desired impact.

**In sum, there are policy options for developing HEs which could have a major impact on increasing the output and productivity of this important, but neglected, sector of the economy.** The key priorities for government consideration include:

- Review and revise legislation on planning and zoning regulations, in consultation with HEs.
- Support the development of financial products and services that suit the needs of poorer households with HEs.
- Encourage and support the Workforce Development Authority in developing and offering short “rule of thumb” courses on financial access and management, as these have been proven to increase earnings.

- Encourage the development of local associations and encourage the Rwanda Cooperative Agency and the Rwanda Development Board to engage directly with HEs to understand their needs and develop creative approaches to support them.
- Evaluate government programs and policies that have implications for HEs to make sure they are effective in reaching their target and actually improving the welfare and sustainability of HEs.

# 1. HOUSEHOLD ENTERPRISES AND THE NATIONAL ECONOMY

## Introduction

Since the original anthropological work in Ghana done by Keith Hart (1973), in which he coined the term ‘informal sector,’ a lot of attention has been devoted to understanding this sector. Yet very little is known about non-farm household enterprises (HEs), a central and large part of the informal sector.

World Bank analysis concludes that African growth strategies have paid limited attention to the potentially significant contribution of HEs to economic growth and poverty reduction. Yet HEs are a critical milestone on the road to diversification of the economy away from low productivity agriculture to higher productivity nonagricultural activities. and development. HEs bring more productive employment, more hours of productive work per person, and higher incomes because they additional income earning opportunities outside of agriculture for households with underemployed labor. In rural areas, as incomes in the agriculture sector grow, households want to use their off season labor to earn extra cash through the year. And growing incomes increase local demand for goods and services, so HEs are born. In urban areas, HEs provide income earning opportunities for workers who do not have enough education or skills to qualify for regular, stable wage and salary jobs. They have played this facilitating role in the past in the “Asian tiger” countries. (Haggblade et al, 2010

The Africa Regional Office of the World Bank therefore has initiated work that addresses these two areas, in collaboration with governments and development partners in selected countries. At the request of the Government, Rwanda was selected as one of the case study countries.

This report summarizes the findings from an in depth analysis of the household enterprise sector, conducted by the World Bank, jointly with the Rwandan Institute for Policy Research (IPAR). The study is organized into four sections: following the introduction, Section 1 analyzes the role of HEs in the national economy, and provides an overview of the characteristics and productivity drivers of HEs; Section 2 examines the major constraints to the start-up, operation, and expansion of HEs, as well as the main factors that drive their productivity; Section 3 reviews the policy and institutional environment in which HEs operate; and Section 4 concludes.

### Box 1 : Informal enterprises and HES

The informal economy is an extensive term used in many contexts, often with different meanings. It refers to a *condition of employment* and a *condition of firm behavior*. Informal *employment* generally refers to workers who do not have a contract that is in accordance with national labor regulations. This type of employment can be found in any kind of firm, those in the formal as well as informal economy (See appendix 1).

*Firms* in the informal economy are also commonly referred to as micro and small enterprises (SMEs). Sometimes the terms are used interchangeably, but sometimes a distinction is made between *formal* and *informal* SMEs (with criteria specified or not). The *general* characteristic of informal firms is that they are unincorporated; other criteria include whether they have a registered business name with the some government authority and whether they pay taxes. *Enterprises owned by households* are normally unincorporated, and are run by self employed persons, who may engage family and casual workers or employ one or more workers and/or apprentices on a continuous basis (up to a specified number which may vary by country). As unincorporated businesses, their legal and financial basis rests in the household, although their activities may take place outside the household. Most definitions would lump these all together as informal MSEs.

This study focuses on *the very smallest enterprises* in this group, the household enterprises (HEs) as these entities are the majority of the informal enterprises in Rwanda, and are uniquely situated within the informal economy. They deserve their own category. We define HEs as *those unincorporated enterprises who do not employ persons from outside the household*. In 2006, according to EICV data, HEs accounted for 95 percent of the unincorporated household businesses tracked in the survey. HEs form an important and distinct sub-sector, to be differentiated from micro-enterprises. While their contribution to aggregate economic growth is usually unmeasured, they are important for household livelihoods and poverty alleviation. The large number of households adding an HE to increase their income signifies the importance of HEs as a livelihood strategy.

**Table 1 : Most unincorporated micro enterprises in Rwanda are HEs**

Enterprise definition	Enterprise type	Share of all businesses reported by household
HE	Owner with no help	80.4%
HE	Owner with family help	15.1%
MSE	Owner with employees	4.5%
	<i>Of which</i>	
	• Less 5 than employees	3.6%
	• 6 to 10 employees	0.4%
	• more than 11employees	0.5%

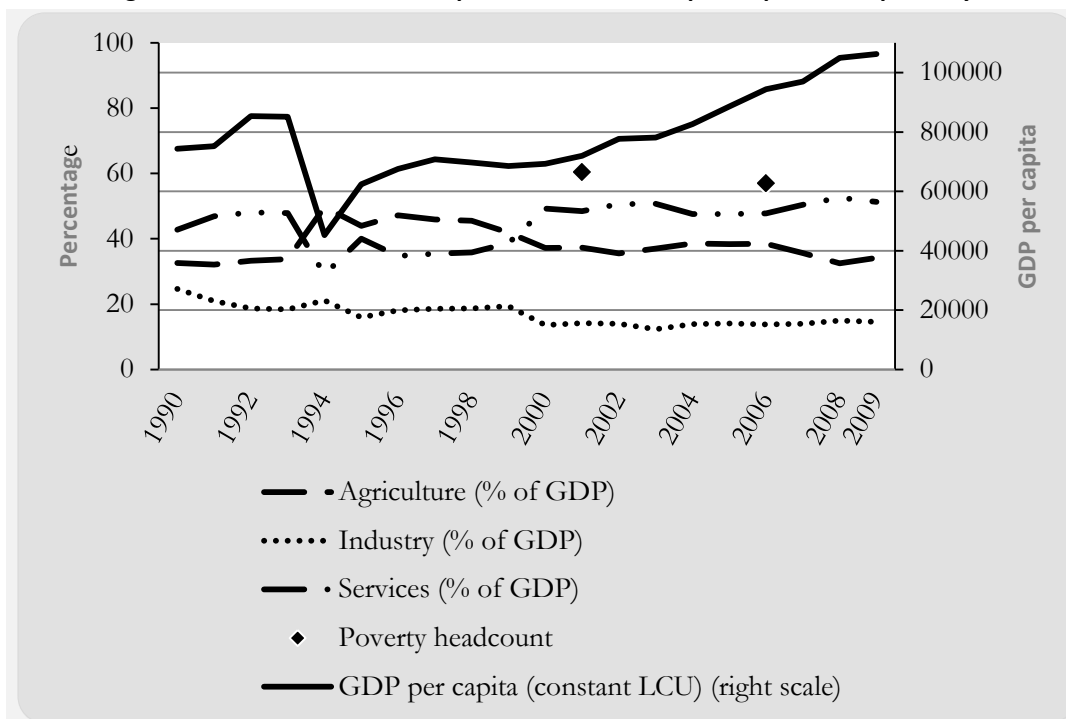
Source: EICV 2005/6.

## Economic Growth and Employment Transformation

**Rwanda has been fortunate to achieve high and steady economic growth since 1994.** On average GDP per capita increased by 6 percent annually over the period from 1994 to 2009. The industrial and service sectors have grown faster than agriculture, which accounted for only 34 percent of GDP in 2009, compared to 50 percent in 1994. Most of the decline in the share of agriculture in GDP was filled by the service sector; a manufacturing sector has yet to take off. Importantly, most of the growth in the share of the non-agricultural sectors occurred during the period of recovery after the genocide. In the past decade, the shares have remain roughly constant, meaning that overall growth in value added was driven by increases in production and productivity within the sectors, not sectoral shifts as would be expected during a period of rapid transformation. The share of the population under the poverty line

declined slightly, between 2000 and 2006, even though the number poor increased as the overall population grew. (Figure 1)<sup>1</sup>

**Figure 1 : Trend in GDP Composition, real GDP per capita, and poverty.**



Source: World Development Indicators.

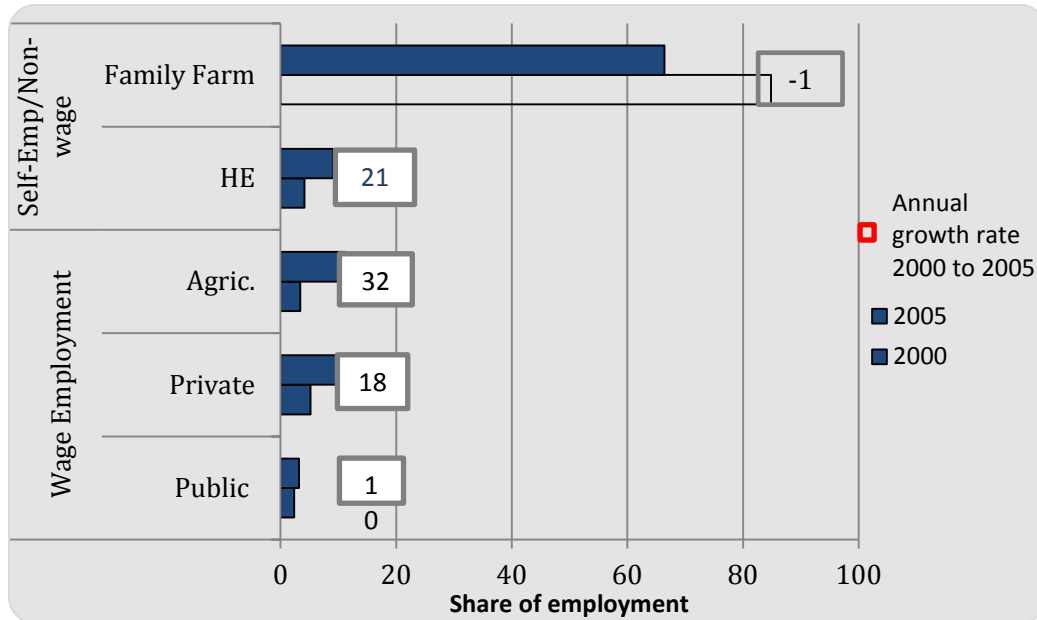
**The structure of employment was also transformed.** Between 2000, and 2006, non-agricultural employment expanded as a share of the labor force, and within sectors, the type of employment was transformed as well. (Figure 2) In agriculture, the majority of new primary employment jobs were created in the *wage* segment, in response to increased demand for labor from the restructured tea estates and other large farming enterprises. Indeed, the share of the employed reporting smallholder agriculture as primary employment fell, as did the absolute number. This reflects declining opportunities in the small holder sector owing to the shortage of new land to exploit.

**In the non-agricultural sector, by contrast, the new primary employment jobs were created equally in both the *private wage segment* and the *household enterprises segment* (Figure 3).** In the case of private wage and salary employment, this growth was over 20 percent per year, but it was from a very small base. Although the substantial changes made to the labor market module of the EICV survey have made employment data from rounds one and two of this survey less amenable to comparative analysis (Box 2), the direction of trend is clear. Rwanda's labor force has been growing fast, and this is expected to continue in the foreseeable future. Given the limits to labor absorption in the agricultural sector, non-agricultural employment needs to expand.

<sup>1</sup> The latest data on households, including the estimate on the headcount of poverty in Rwanda comes from the 2005/6 EICV survey. As a result, most of the quantitative data in this section is from 2006. See Box 2 for discussion.

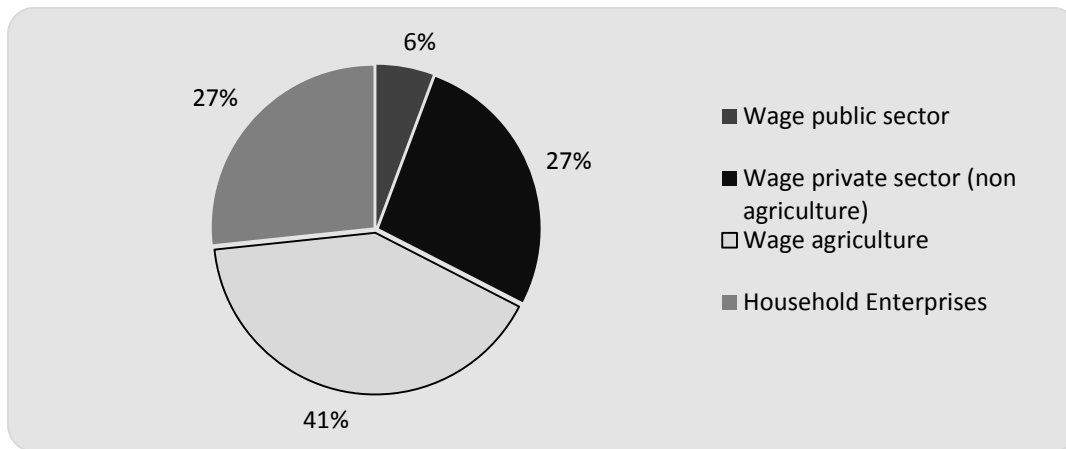


**Figure 2 : Family farming shrunk as a share of primary employment, 2000-2006.**



Source: EICV 2000/1 and 2005/6

**Figure 3 : Agricultural wage employment was the largest contributor to new job growth, 2000-2006**



Source: EICV 2000/1 and 2005/6

**Despite the recent growth, both the nonagricultural wage and the HE segments remain small as a share of total employment, and are dominated by men.** Only 15 percent of men and 5 percent of women have either a job with a secure contract or work as employers (Figure 4). Women are less likely to report an HE as their primary activity, and there is a higher share of female-operated HEs in urban than in rural areas (59 compared to 46 percent), reflecting the key role in agriculture assigned to women in the rural areas (Table A2). While the low participation of women in HEs is often explained by the fact that looking after their home and children remains women’s responsibility in Rwanda, in Ghana where women have the same set of responsibilities, 2/3 of the HEs are operated by females. This suggests that there may be opportunities for expansion of this sector through encouraging women to enter.

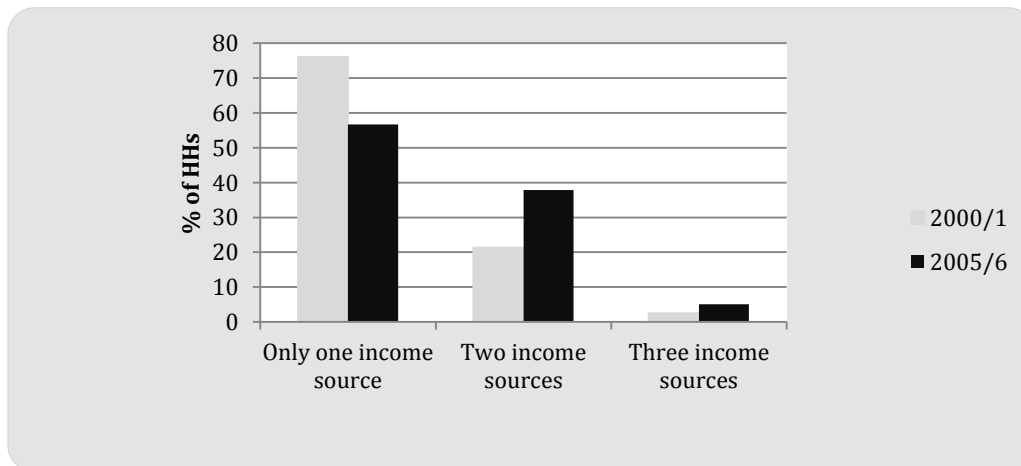
**Figure 4 : But in 2006 women were still concentrated in the agricultural sector, which still dominates the structure of primary employment**



Source: EICV 2000/1 and 2005/6. Note: Agricultural wage employment included in the agriculture bar; wage work refers to public and private non-agriculture.

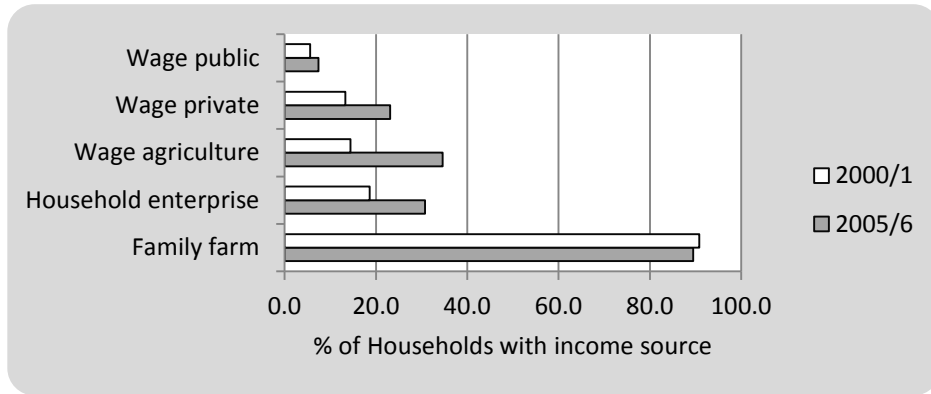
**A more complete picture of the transformation is seen by looking at household livelihoods.** Nearly half of the employed population in 2006 reported having more than one employment, so the above graphs on primary employment do not provide the whole story. Between 2000 and 2006, the number of households reporting more than one income source doubled (Figure 5). In some households in rural areas, one member of the household left the family farm for wage employment on commercial farms (18 percent of all two-income households), but for many households this meant adding an HE to their other income-earning activities (60 percent of all two-income households). By 2006, over 30 percent of households in Rwanda relied on HEs as an income source – more than twice the number of individuals who reported HE activity as their primary employment. (Figure 6).

**Figure 5 : Households reported more income sources in 2006**



Source: EICV 2000/1 and 2005/6.

**Figure 6 : Many households set up enterprises between 2000/1 and 2005/6**

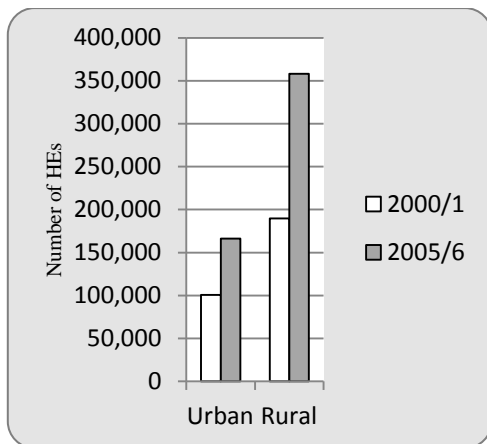


Source: EICV 2000/1 and 2005/6.

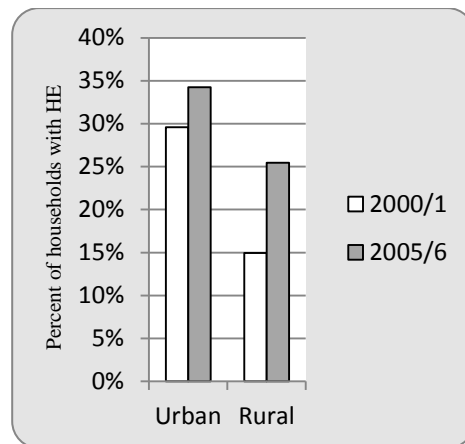
The majority of Rwanda’s population still lives in rural areas and very small towns, so the majority of HEs were in rural areas in 2006. The expansion in the number of HEs was more rapid in rural areas, where the share of households with an HE increased from 15 to 28 percent (Figure 7). In these areas, HEs provided opportunities for households to diversify their income and work more hours. Studies in other countries have shown that rural labor force participants with two sources of income tend to report more hours of economic activity per month, and have higher monthly and yearly earnings. (Fox and Pimhidzai, 2011).

In Kigali and other urban areas, where HEs were already more common, a more modest growth occurred (Figure 7) – it basically kept up with the growth of households. Moreover, households in Kigali and other urban areas specialized in their HE activity, i.e., the latter was their main and sole income source (Tables A2, A15).

**Figure 7 : There were more HEs in rural areas in Rwanda in 2006,**



**But the prevalence was higher in urban areas**



**HEs survive and grow because they provide low-cost goods and services demanded in a growing, but less developed economy that lacks a diverse modern service sector.** In urban areas, mobile retail traders substitute for convenience stores, shopping malls, and the internet. HEs provide the barber shop and take-out food. They manufacture low-quality goods such as home-made bricks, roof thatching,

furniture, iron work, which typically will not be demanded as incomes increase further and cheaper mass produced goods, often of higher quality, enter the market. (see table 3 for a list of common HEs in Rwanda). For this reason, services tend to dominate the sector and to persist longer than manufacturing activities. HEs mostly sell goods and services to households--they are not linked into supply chains except in a few cases, where wholesalers themselves use informal retail networks to reach consumers. The mobile phone card sales network is an example.

*"I am happy if I have four or five clients a week."*

*"Success is making a decent living and being able to afford building a house."*

**Rwanda is no exception to this trend, with a high 86 percent in the service sector..** Within the service sector, the single most important activity is wholesale and retail trading, and this is the sector where female HE operators are most likely to be found (Table 2). Male operators are also found in trading, but they are predominant in transport, communication, and other service jobs. Both males and females are found in basic manufacturing (e.g., making small objects for sale, brick making, brewing and selling food and beverages, milling grain, etc.; also see Table 3).

**Table 2 : Industry Sector of Household Enterprises, by Gender, 2005/6**

	Male	Female	Total
Industry	16.7	10.6	14.0
Trade	58.6	77.1	67.0
Other Services	24.7	12.3	19.0
Total	100.0	100.0	100.0

Source: EICV 2005/6.

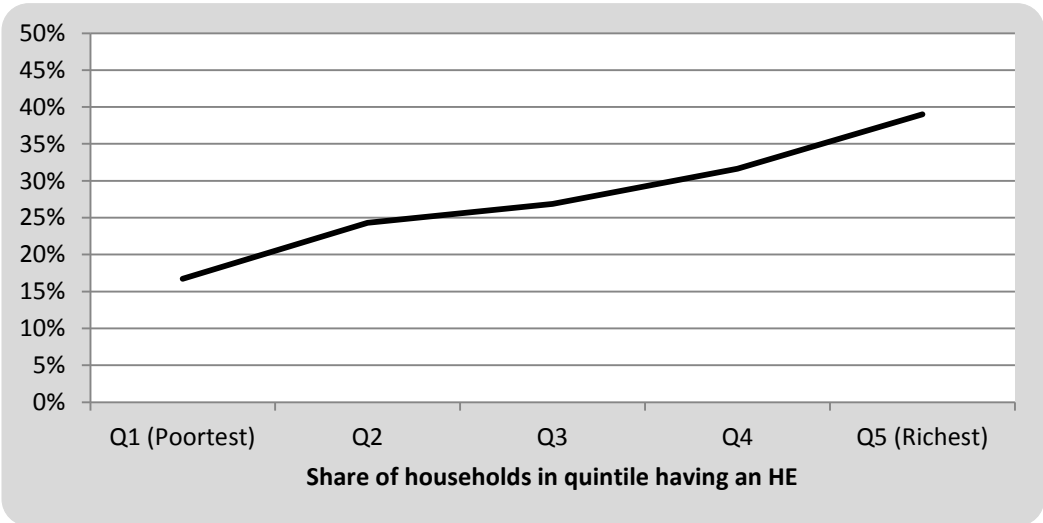
**Table 3 : Examples of HE activity, by sector**

Trading	Manufacturing	Services
New Cloths	Tailoring	Technician
Potatoes	Arts and Crafts	Cycle taxi
Vegetables	Paint	Hairdresser
Fruit	Charcoal	Bicycle Repairs
Fish	Carpenter	Shoe Repair
Beans	Postcards	Construction
Household Utensils	Silkscreen Printer	Porter
Phone cards	Basket Weaving	Shopping carrier
Shoes	Weaving	Charge 'phone batteries
Ground nuts and flour	Fabrics	Cobbler
Charcoal and Firewood	Knitting	Motorcycle taxi
Charcoal	Sculptor	Photographer
Traditional Beer Seller	Paint and Soap	Mechanic
Cassava Flour	Miller	Welding
Milk		Builder
Hawker		Painter decorator
Second-hand cloths		Taxi
Groceries		Watch Repairer
Onions and Peanuts		Canteen Operator
Piping		Business Consultant
Car etc Spare Parts		Computer Repairs
Stationary		Electrician

Source: Focus group interviews, 2010.

**While the evidence of the effectiveness of HEs in poverty reduction in Rwanda is limited, HE ownership is positively associated with increased household income.** HE ownership is concentrated in the upper consumption quintiles (Figure 5). The positive correlation between higher consumption and HE ownership in Rwanda is not evidence that HEs reduce poverty because it is not clear whether HEs make households richer, or whether already better-off households with access to capital start HEs. However, evidence from other Sub-Saharan African countries suggests the latter. Studies have also shown that HEs create a middle class by filling in the gaps in the labor productivity and income distributions between smallholder agriculture or low paying agricultural wage work at one end, and highly paid modern sector jobs. Strong correlations between growing HE income and poverty reduction have been found in a number of Asian countries as well (Haggblade et al, 2010).

**Figure 8 : Richer households are more likely to own HEs**



Source: EICV 2005/6

**In sum, HEs form an essential part of Rwandan households’ livelihoods, especially for households where no one has been able to achieve an education level higher than primary school.** Even with continued good growth rates and Rwanda’s excellent progress in primary and secondary education, projections show only about 20 percent of Rwandan labor force will have completed secondary education by 2020 and therefore be qualified for a highly productive job in a modern firm. For the other 80 percent force, household enterprises offer a solution to the land squeeze Rwanda is facing, and an alternative to underemployment. Sustaining the growth and improving the productivity of HEs in Rwanda needs to be an essential part of the development and poverty reduction strategy

## Box 2 : Main Data Sources and Methodology

This study used survey data and relevant literature available in Rwanda, as well as a special qualitative analytical work commissioned for the report. The approach is based on the framework especially developed by Steel and Snodgrass (2008) for the analysis of household enterprises.

### The key data sources are:

- The quantitative work mostly relies on the Household Living Conditions Surveys (EICV1 and 2) - the two most recent public use household surveys undertaken in 2000/1 and 2005/6 respectively. These surveys allowed identification of key features of the HE sector in 2006 and its economic role, and determination of drivers or constraints to their productivity. The two rounds of survey further enabled some understanding of the dynamics in the HE sector in general.
- The survey of informal businesses from 2006 (Foreign Investment Advisory Service-FIAS 2006) also provides key insight to the report. FIAS contains more detailed information on the enterprise and registration in particular, compared with EICV2. EICV2 on the other hand covers both urban and rural areas while FIAS only covers major urban centers. Due to the focus on only urban enterprises and those found in major markets the FIAS sample contain larger enterprises and more Micro and Small Enterprises than the EICV.
- These data sources are all almost out of date, however, as the economy has changed substantially since 2005-6. To complement the quantitative data sources, a small qualitative study was launched for this report in the third quarter of 2010. Focus group discussions were held with HEs and other key stakeholders e.g. local authority officials and local providers of support to HEs. A small structured survey was also administered to the HE focus group discussants. The flexibility of the open-endedness of qualitative research enables us to capture the perspective of HE operators and those they interact with on a regular basis, providing a more nuanced understanding of challenges faced by HE operators including motivations for starting an HE, growth dynamics, the constraints and risks, and importantly the impact of Government policy, intended and unintended, positive and negative. Further details on focus group discussions are available in the field report on the Institute of Policy Analysis and Research's website ([www.ipar-rwanda.org](http://www.ipar-rwanda.org)), or the World Bank website on household enterprises.

### Note on comparison of employment indicators over time from EICV data

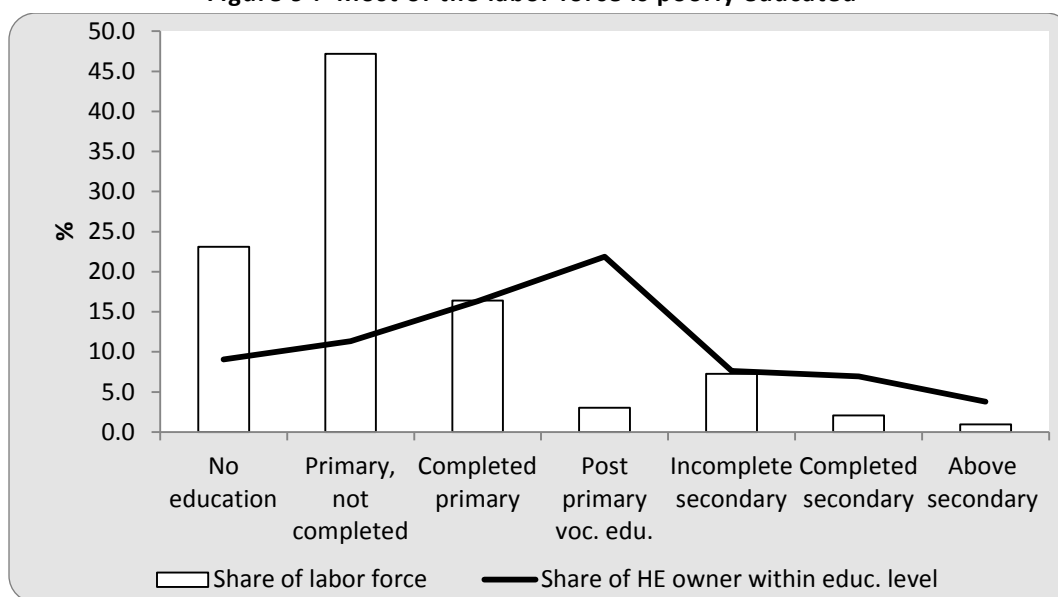
The EICV 1 and 2 are broadly similar in the way that they both capture individuals' employment status, employment type, sector of industry sector, and employer. However, questions related to employment status in the last twelve months and last seven days were changed between the two surveys. Specifically, in the employment section of 2000/1 survey individuals are asked for the primary and secondary occupation in the last twelve-months, and only primary occupation in the last seven days. But in the 2005/6 survey individuals are allowed to list up to five jobs in both last 12 months and 7 days. Unfortunately the importance or rank among the listed jobs is unclear. About 30 percent of the individuals have had more than one job in both 12 months and 7 days based on information in EICV 2. As a solution to this the first row of information in EICV 2 is seen as the primary occupation, second line is seen as secondary jobs etc. This assumption also seems to be the approach taken by National Institute of Statistics of Rwanda and other researches that have used this data in the past.

## 2. WHO OPERATES AN HE AND WHY: A STATISTICAL PICTURE OF THE HE SECTOR

Developing effective policies and programs for the HE sector requires first and foremost, an understanding of who is, and is not, in this segment of employment and why. This includes the personal characteristics of HE owners, their motives for entering the sector, what they earn and how they earn it, and the constraints and opportunities they perceive. In this section and the next, we use the EICV2 household survey data from 2006, supplemented by data gathered from focus group discussions (FGD) around Rwanda held by researchers from IPAR, and other information available to piece together this profile (see Box 2).

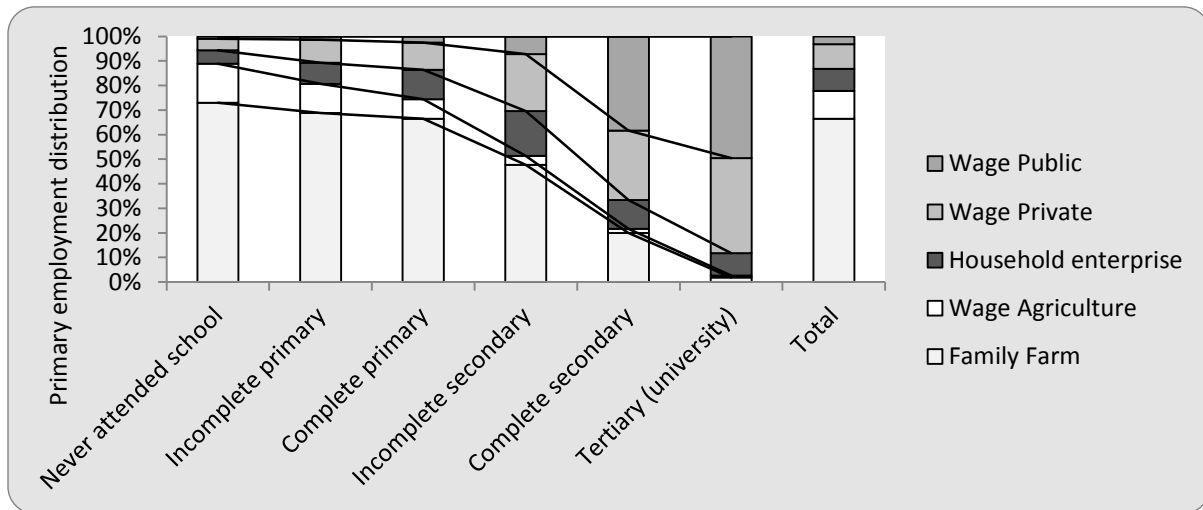
**The likelihood of people owning an HE increases as they gain more education, but falls dramatically after they complete secondary education.** In 2006, the Rwandan labor force was poorly educated -- 26 percent never attended school, 48 percent had incomplete primary education, and only 27 percent had completed primary or above (Table A5). Most of those with less than complete secondary education declared their primary activity to be agriculture, either wage or non-wage. While HE owners tend to have more education than those in agriculture, this does not mean that HE owners are highly educated, as the majority of them either had never attended school or had not completed primary schooling in 2006 (Figure 6). Educational attainment at the level of complete secondary or above qualifies labor force participants for wage jobs, which tend to be more desirable, so most people with this education take these jobs if they can find them. It is not surprising that employers seek out those with the highest education; experience has taught employers that without the literacy, numeracy, and problem-solving skills that basic general education provides, on-the-job training will not stick.

Figure 9 : Most of the labor force is poorly educated



Source: EICV 2005/6

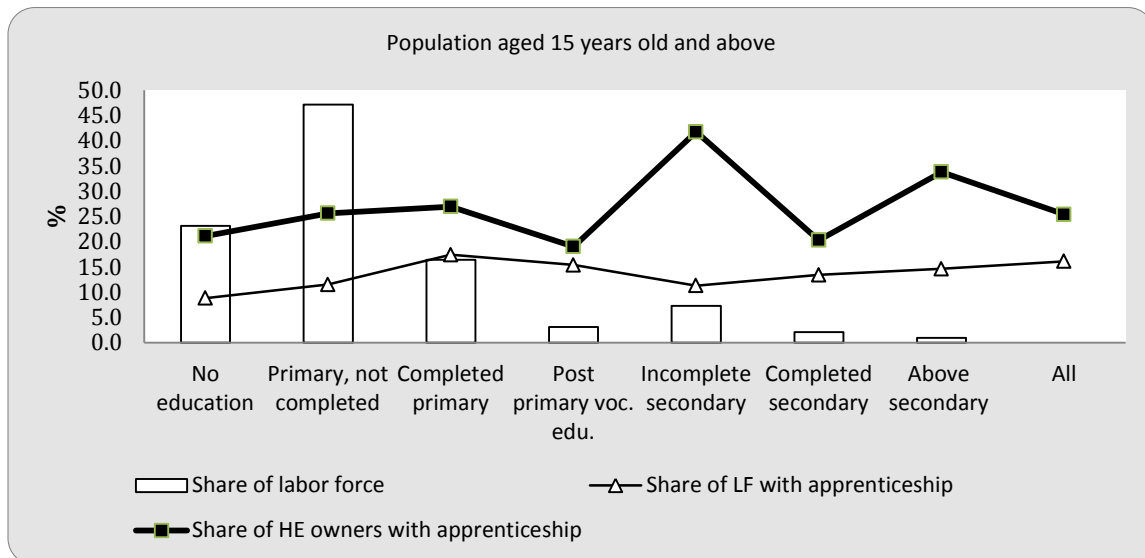
**Figure 10: Most of the least educated worked primarily in agriculture in 2006**



Source: EICV 2005/6

**HE owners are twice as likely to have had an apprenticeship or other types of post-primary training** (Figure 7). Apprenticeship, however, is not a substitute for education; people with tertiary education are as likely as those without any education to have had apprenticeship. Consistent with the results of the EICV survey, FGD participants also reported that they had participated in different forms of training. More noteworthy is that almost all, including those that had had training, reported that they needed more skills and business training (Figure 8).

**Figure 11: HE owners are more likely to have training especially after completing primary education**



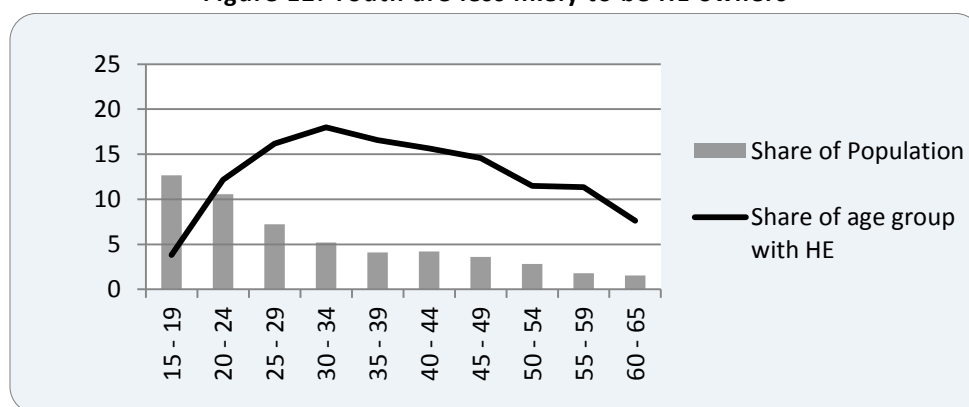
Source: EICV 2005/6

**The youth are less likely to be HE owners.** The probability of owning an HE increases steadily with age, before dropping again at around 39 years of age. For those under 19, the probability of operating an HE is less than 10 percent, it is 13 percent for those under 24, and 18 percent for those over 30 (Figure 12).



One explanatory factor is that young people in Rwanda tend to be more educated than older generations (Table A6) and are therefore more likely to get a better paying wage job. Another is that youth may have trouble getting capital to start a business. Nevertheless, in 2006 since the youth (15 to 24) made up almost 35 percent of the total population, many HE owners are in fact young (Table A6).

**Figure 12: Youth are less likely to be HE owners**



Source: EICV 2005/6.

**Some people think that the growth of HEs in urban is caused by an influx of migrants, but this is not true.** One quarter of HE owners were migrants in urban areas in 2006, but this fact mostly indicates the high proportion of migrants in urban areas (24 percent of adults). The majority of migrants reported in 2006 that they migrated for family or other reasons, not for employment. Migrants were actually less likely to start HEs than long time residents in 2006, as many migrants had secondary education or higher so they are able to obtain a wage and salary job. It is not the case that migrants are responsible for the growth of HEs, since ¾ of urban HE owners are not migrants.

**Table 4 : Reason for migrating**

	HE owners	Non HE owners
Reasons related to employment	42%	48%
Employment	23%	27%
Lack of employment	11%	11%
Lack of Land	8%	10%
Other reasons	58%	52%
Family related	34%	29%
Calamities/conflicts	3%	3%
Desire to return to country	7%	7%
Education	3%	6%
Health	10%	7%
	100%	100%

Source: EICV 2005/6. Notes: A migrant is defined as a person who relocated to current location within the last 5 years. Table 4 shows population aged 15 years and above.

### Motivations and Rewards of HE owners

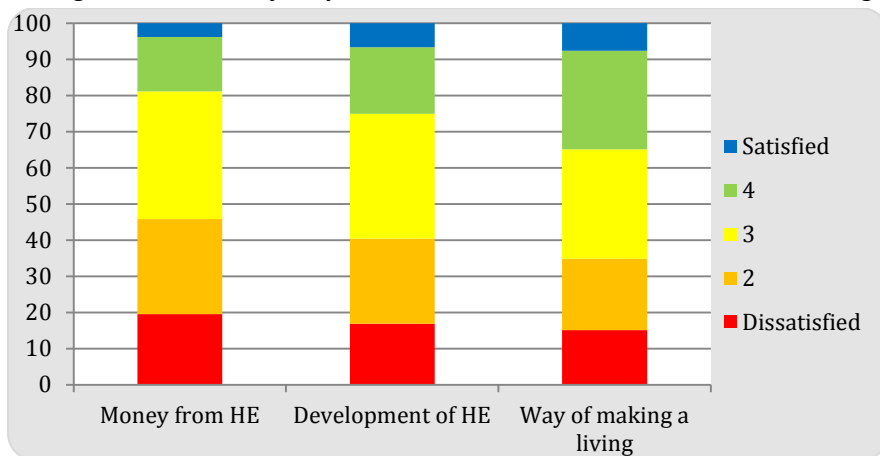
**Both “push” and/or “pull factors” play a role in the decision of households to run their own HEs.** The perceived opportunity to earn a better living through HEs, the ease of entry into the sector (because of

relatively less capital and less education / skills required), and the desire to be one's own boss are the main motivating factors that "pull" households into starting their own HE. The inability to find any other job options, lack of land, and lack of education and/or skills are the primary "push" factors. In FGDs, HE owners in rural areas tended to cite push factors, while those in urban areas cited both. For both men and women, there is very little difference in their underlying reasons for running an HE, although the desire to combine home and work is a greater motivating factor for women, especially those engaged in trading and hawking.

*We do not like our business. We sell fruits and vegetables because we do not have any other thing to do. We would change our business at any time if there is an alternative.*

It is apparent from the FGDs that success was generally viewed as being able to make a decent living, having capital to invest in improving their business, getting support from local authorities, and having a decent place from which to work. Other indicators of success cited are being able to save for old age, invest in a farm, buy animals, build a house, feed the family, and send the children to school. What constitute success varies with the expectations of the operators and what their alternatives are, but is clearly related to the standard of living they are able to enjoy. It is noteworthy that expanding their HE, and hiring new employees, were rarely mentioned, indicating that growing into SMEs is rarely on the HE owners' radar.

**Figure 13: The majority of HE owners find their business rewarding**



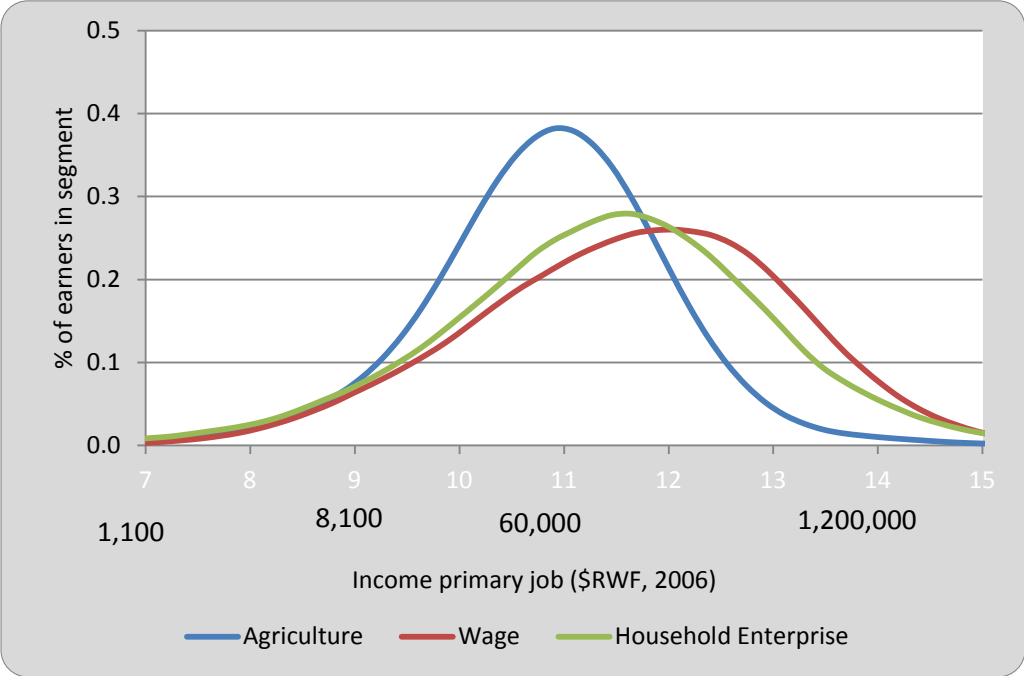
*When we were farming survival was very difficult, but now it is a little better because we make some money everyday so we have some cash. This enables us to meet our immediate needs.*

Source: Focus group discussions, 2010

**Regardless of whether they entered the HE sector because of push or pull reasons, HE owners in Rwanda interviewed in FGDs tended to be satisfied with their choice.** Most found running an HE a satisfactory way to make a living, and the majority are satisfied with their earnings (Figure 10). This is not surprising because our analysis found that in 2006, on average, HE earnings were higher than agricultural earnings, although they were lower than non-agricultural wage earnings. . Note that the bottom axis in Figure 7 is a log scale, so that as one moves from left to right, earnings increase a lot faster. The peak of each curve is the median earning – what the average person makes, while the width of the area under the curve shows the distribution of earnings (variance). While median agricultural

earnings was lower than non-agricultural earnings in 2006, the variance was also smaller, indicating that the risks and rewards are both lower in this sector. For those with a lot of education, who are able to command a high salary and therefore were found at the far right end of the earnings distribution, wage earnings were higher than HE earnings in 2006, and can be expected to stay that way. But there is significant overlap in the distributions, indicating that even when operated as primary employment, many HEs do not earn as much net income as the highest productivity smallholder agricultural, while others do better than the median earnings in private wage employment.

**Figure 14: Distribution of earnings by source, 2006**



*Note: "agriculture" includes both agricultural wage earnings and small holder. Source: EICV2*

**Education and business skills play a big role in determining HE earnings.** To identify which characteristics of HE owners were most important in determining earnings, we used regression analysis to estimate HE earnings (measured by the log of hourly earnings)<sup>2</sup> as a function of the characteristics of HE owners and the type of sectoral activity they engage in. The results (in Table 5 below) show that, compared to the majority who did not complete primary education, those who completed it earn on average 40 percent more, and those who have some secondary education earn 75 percent more, with even higher returns for the few who have completed secondary education or above. Consistent with their low levels of education, few HE owners (12 percent of men, 5 percent of women, see table A16) reported that they kept books or had any kind of accounting system. However, if they were able to do so, it was associated with 35 to 45 percent higher earnings, controlling for level of education.

<sup>2</sup> Hourly earnings was estimated by multiplying HE profits that belongs to the household (revenue minus cost) by the share of hours worked by the manager (defined as hours worked by manager divided by total hours in household) to give the estimated total earnings of the manager. This number was then divided by hours worked by the manager to arrive at hourly earnings. See Appendix 2, table A16 for the means of the regression variables.

**Post-school technical and vocational programs appear to have a positive effect on HE earnings** according to 2006 EICV data. Post-primary vocational education in Vocational Training Centers (VTCs, or CFJs in French) also has a positive effect on HE earnings, but less than 10 percent of HEs had been able to access these programs in 2006, according to the EICV2 survey. An apprenticeship was a more common form of training<sup>3</sup> (Table A9). In 2006, these programs seemed to result in higher earnings primarily for males, and for those in urban areas. In our country studies as well as other research, we often find this gender bias in returns to apprenticeship. This is because, in some countries, females traditionally train in sectors where the market is already saturated or diminishing (World Bank, 2011).

**Other factors which contributed to higher earnings in 2006 were sector of activity and time spent on the HE.** In rural areas, trading and commerce is by far the most lucrative sector, but this did not hold in urban areas in 2006, as other sectors such as manufacturing and personal services yielded equally high returns, controlling for personal characteristics. Operating the business as a primary activity year-round was associated with 20 percent higher earnings, but it may be that only those who make a good living off their HE operate year-round. However, working 20 hours or more during the week on the HE is not associated with higher earnings. It seems that most HE owners did not work full-time at their HE in 2006; the median number of hours was less than 20. (Figure A1) Working more than 25 hours per week was the norm in urban areas, but not in rural areas. The regression indicates that the number of hours worked showed diminishing returns. Earnings are higher in urban areas.

**Table 5 : Determinants of HE earnings, by gender and location**

	All	Male	Female	Urban	Rural
Male manager	0.489*** -0.08			0.541*** -0.13	0.454*** -0.09
Age of manager	0.02 -0.02	0.03 -0.02	0.02 -0.02	-0.03 -0.03	0.03 -0.02
Age Squared and divided by 100	-0.038** -0.02	-0.046** -0.02	-0.03 -0.03	0.03 -0.03	-0.047** -0.02
<i>Marital status (reference group single)</i>					
Manager married	0.227** -0.10	0.15 -0.16	0.298** -0.13	0.334* -0.17	0.212* -0.13
Manager divorced/widowed	0.328** -0.13	0.14 -0.25	0.385** -0.17	0.414** -0.19	0.346** -0.17
Manager migrant	-0.12 -0.10	-0.01 -0.13	-0.19 -0.14	0.04 -0.15	-0.223* -0.13
<i>Education (reference group no education)</i>					
Primary, not completed	0.16 -0.10	0.262** -0.13	0.13 -0.14	0.30 -0.19	0.10 -0.11
Completed primary	0.373*** -0.11	0.416*** -0.15	0.405*** -0.16	0.345* -0.19	0.392*** -0.13
Post primary vocational education	0.454*** -0.15	0.704*** -0.25	0.297* -0.17	0.658** -0.29	0.378** -0.16
Incomplete secondary	0.720*** -0.17	0.788*** -0.26	0.712*** -0.21	0.979*** -0.26	0.535** -0.23
Completed upper secondary or above	1.224*** -0.31	1.247*** -0.40	1.285*** -0.37	1.517*** -0.37	0.89 -0.61
Past apprentice	0.198** -0.09	0.199* -0.11	0.18 -0.14	0.432*** -0.13	0.11 -0.11
Months operated last year	0.205*** -0.01	0.200*** -0.02	0.210*** -0.01	0.208*** -0.02	0.205*** -0.01

<sup>3</sup> Some apprenticeships may have been provided by the VTCs

	All	Male	Female	Urban	Rural
HE owner works part-time	0.901***	0.900***	0.871***	0.918***	0.885***
	-0.07	-0.09	-0.11	-0.18	-0.08
Registered with state authority	0.169**	0.09	0.391***	0.255**	0.163*
	-0.08	-0.09	-0.12	-0.12	-0.10
Has accounting system	0.374***	0.321*	0.522***	0.25	0.392**
	-0.12	-0.16	-0.17	-0.19	-0.16
<i>Sector of industry (reference group trade)</i>					
Sector mining, construction and energy	0.01	0.06	1.182***	0.569**	0.00
	-0.20	-0.21	-0.23	-0.28	-0.21
Sector manufacturing	-0.268**	-0.19	-0.357*	-0.29	-0.247*
	-0.11	-0.13	-0.18	-0.22	-0.13
Sector Other services	-0.314***	-0.309**	-0.360**	-0.286*	-0.314**
	-0.10	-0.12	-0.18	-0.17	-0.13
<i>Location (reference group is rural)</i>					
Kigali	1.002***	1.089***	0.614***		
	-0.16	-0.22	-0.21		
Other urban	0.308***	0.405***	0.12		
	-0.10	-0.14	-0.13		
Constant	0.32	0.69	0.58	1.807***	0.37
	-0.30	-0.45	-0.46	-0.46	-0.34
District dummies	Yes	Yes	Yes	Yes	Yes
Observations	1587.00	879.00	708.00	531.00	1056.00
R-squared	0.41	0.37	0.44	0.45	0.40

Source: EICV 2005/6

Notes: Standard errors are robust standard errors taking correlation between observations in same EA into account. A part-time HE is defined as one working less than 20 hours a week.

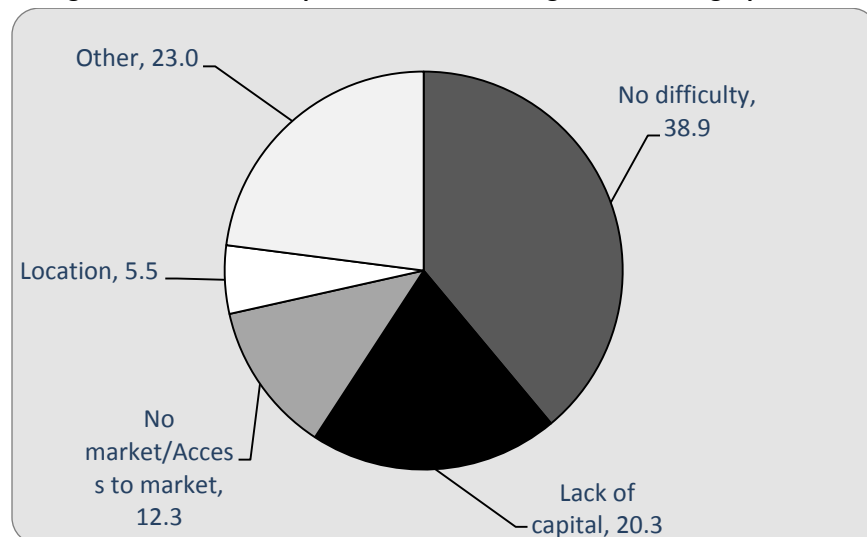
### 3. CONSTRAINTS AND RISKS TO HES

#### Introduction

Although HE owners interviewed in the FGDs were overall satisfied with their livelihood choice, they also cited a number of factors which they felt constrained their opportunities for higher earnings and more success. They also discussed the risks they face in operating their business. The results of the FGD discussions yielded similar results to the ones cited by urban microenterprises in the FIAS (2006) report, and those cited by HE owners in the 2006 EICV. This indicates that these constraints are longstanding, and have not yet been addressed through policies or programs. *Note that all of the discussion on constraints and risks from all sources underestimate the extent of the problems, especially at start-up, since the surveys and FGDs excluded those who would like to set up an HE, but have not been able to, or tried and failed.*

**The main challenges in starting up an HE appear to be (i) finding the capital and (ii) getting access to a location to work.** Four out of every ten HE owners in 2005/6 reported to have no major problems setting up their enterprise. For those who reported difficulties during start-up, one in five reported lack of market access as the main constraint, and another 20 percent cited inadequate capital as their main problem (Figure 14). HEs reported that they did not apply for formal credit because they expected that they could not meet the requirements or they could not pay the interest. Thus, for their start-up capital, only 2.5 percent of HEs used credit from formal lending institutions; most rely on their own savings or on family and/or friends. Finding workspace at locations close to market is another major impediment for starting up and for operating HEs (as discussed below).

**Figure 15: Owners report several challenges to starting up an HE**



Source: EICV 2005/6

## Constraints to HE Growth and Productivity

**Poor access to and high cost of finance is the number one constraint to the productivity and growth of HEs and MSEs, according to their owners.** The most common constraint raised in FGDs is lack of access to finance (Table 7), which an astonishing 90 percent of MSE owners also ranked as their most pressing constraint (Table 8; for details, see FIAS 2006). FGD participants reported that they would like to borrow money to expand their business. However, many acknowledged that they did not have the capacity to handle a loan or they did not make enough profit to repay one. Other research also suggest that lack of lending from formal financial institutions is due to lack of knowledge of the existence of lending institutions, lack of trust, high rates of interest, and the short repayment periods (Napier, 2010). HEs can therefore be excluded from credit for several different reasons (Box 3).

**Table 6 : Challenges to HE operation**

Most frequent reported challenges	Share of enterprise listing constraints to business operation and growth	
Access to finance	Access to finance	90%
Cost of finance	Transportation	66%
Burden of taxes and charges	Access to land	60%
Training in skills and running a business	Microeconomic Stability	55%
Workspace	Cost of Financing	55%
Lack of representation and consultation	Cost of Electricity	50%
Lack of support from Government (local and central)	Access to premises.	45%
<b>Less reported challenges</b>	Crime Theft and Disorder	45%
Opening hours and days of markets		
Knowledge of working in cooperatives		
Administrative Regulations		
Lack of demand.		
Marketing		
Lack of innovation		
Electricity availability and power shortages		
Water		
No projects to support HEs		
Transport		
Theft		
Town Master Plans forcing moves		
<i>Source:</i> Focus group discussions, 2010.	<i>Source:</i> FIAS 2006	

### Box 3 : Barriers to Accessing Finance

- Access exclusion, e.g., through risk-screening (mainly lack of collateral or other acceptable guarantee) and/or low profitability of enterprise.
- Capacity exclusion – inability to write an acceptable business plan.
- Conditions exclusion – product design inappropriate for HEs.
- Price exclusion – product too costly.
- Self-exclusion – refusal to apply because of fear of rejection of loan application

Source: Napier, (2010)

**To a large extent, difficulties in accessing finance are due to factors other than inaccessibility of banking facilities for credit.** A 2008 FinScope survey shows that 86 percent of Rwandans either do not have a cash income, or they don't perceive a bank account to be of value as they "don't have enough of their income left." The EICV survey confirms that lack of accessible lending institutions does not seem to be a problem. In 2005/6 25 percent of households had either savings or credit with a formal banking institution (Table A11). However, only a few HEs applied for a loan (14 percent), of which only two-thirds successfully obtained it.

#### **Securing workspace in locations close to foot traffic and customers is another pressing constraint for most HEs.**

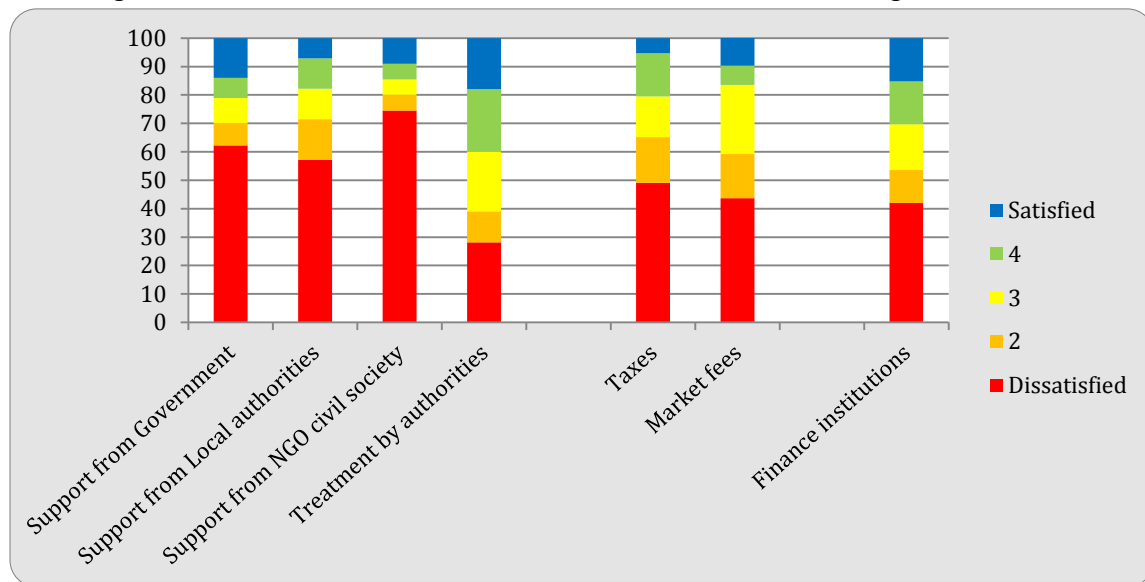
Local authorities are expected to develop town master plans with zoning provisions for different activities, including market places (Ministry of Infrastructure 2008). However, there do not seem to be enough places allocated to HEs, or the places allocated are often not suitable. For example, HEs are prohibited from operating in such central

*We have been forced to move from where we work, and it is hard to find customers in our new location. It is not a market any more. It is just an open space. The rains damage our goods, and the funny thing is they continue to tax us.*

areas as sidewalks, bus stops, and main roads (on which bicycle-taxis are often banned from plying) where customers are most likely found. Many designated markets are only open a few days a week, restricting the amount of time HEs are allowed to work. Likewise, HEs are often assigned a place on government land, but when a larger higher paying business wants to purchase or rent the land, they are forced to move out. FGD participants cited instances when local authorities arbitrarily moved HEs to poorly constructed or underserved marketplaces at locations away from current and potential customers. Lack of workspace or overcrowding at designated marketplaces was viewed as a disincentive for setting up new HEs. Overall, both microenterprises and HEs reported lack of support from local governments. Lack of transport infrastructure, high cost of electricity, and high taxes are also viewed as barriers to HE operations. MSEs in urban areas surveyed by FIAS (2006) were more likely to cite lack of infrastructure or cost than the HEs who were FGD participants.



**Figure 16: Current HE owners were dissatisfied with their working environment**



Source: Focus group discussions, 2010

**HEs do support locally provided services through tax payments, even if they find the absence of these services a constraint.** Two-thirds of FGD participants reported paying taxes or fees to local authorities (mostly *patente*; see Table 7). On average they paid about 5 percent of revenues (Table A14). This is a lot given their small profit margins. Among MSEs surveyed by FIAS, 90 percent paid the local registration tax. The common perception that they receive inadequate services despite these payments indicates the dissatisfaction of HEs with the local economic environment, including both regulations and services provided, particularly in the urban areas (Figure 15).

**Table 7 : Local taxes and charges**

<b>Business Licence Fee (Patente)</b>	The business licence fee is paid annually to the local authority by any one undertaking income-generating activities. The amount paid is set out in the law, but varies according to type of business and location. The minimum amount is set by the council each year, but must not exceed 2,000 FRW in rural areas and 4,000 FRW in urban areas including Kigali (see Appendix 1).
<b>Property Tax</b>	Property tax is paid annually by the owner or occupier of a house or building. It is calculated on the value of the property. The rate is determined by the district based on the nature of the property, its location, and its use.
<b>Fees</b>	<p>Fees are charged for services provided to the population and may not exceed the value of the service rendered.</p> <p>HEs are charged market fees for the maintenance of the market. The fee is based on the size of their pitch, and the type and value of the goods they are selling.</p> <p>All HEs that pay for a trading licence are charged public cleaning fees based on the size of their operation, and according to the following scales:</p> <ul style="list-style-type: none"> <li>operating in the village – between 500 and 1,000 FRW a month;</li> <li>operating in the trading center – between 2,000 and 10,000 FRW a month;</li> <li>operating in Kigali City – between 3,000 and 10,000 FRW a month.</li> </ul>

Source: IPAR (2010 b)

**The main risks to HEs during operations are illness and poor health, theft, damage to goods and/or equipment, lack of insurance and hence lack of security.** The majority of FGD participants reported that they do not have resources to fall back on in the event of theft, fire, or damage to property. None has insurance against property and against accident, except among motorcycle-taxi drivers for whom it is a legal requirement. Although 95 percent had mutual health insurance, the cost of health care and medicine is still a major concern. As a result, 43 percent of FGD participants reported that they constantly had to do without essential medical care, as compared to 25 percent who sometimes had to do without it.

**In sum, HEs owners want to increase their productivity and income.** In the previous chapter, they suggested limited aspirations for their business: to support the family, pay school fees, etc. Yet they report that they are impeded in even realizing these simple objectives. Some constraints relate the lack of skills in the household, or other constraints which come from within, but most relate to policies and programs outside the sector. Studies in other countries suggest that addressing these constraints increases the vibrancy and sustainability of this important sector.

## 4. POLICY, INSTITUTIONAL, AND SUPPORT ENVIRONMENT

Rwanda has created an extensive architecture of development policy documents which guide the Government at all levels, as well as non-state actors, in setting regulations and designing and implementing programs. In this chapter, we provide a snapshot of how this architecture, as well as its implementation supports HE growth and sustainability. Our analysis is based on (i) a thorough review of Government of Rwanda documents on policies and programs; (ii) consultation with non-state actors on such as development agencies and NGOs on their programs, and how they fit into this architecture, and (iii) comments from focus group participants from all over Rwanda on whether they have benefitted from these policies and programs. An overview of the key Government programs is provided in Table 10 at the end of this section. Appendix provides an overview of the main NGO programs. What is clear from these two tables is that there is a lot of action in areas which could benefit HEs. But the message from the ground is that FGD participants found little effective support within this architecture.

This section is organized as follows. First, the overarching national strategies are reviewed. Next, the national and subnational sectoral strategies, policies and programs are reviewed, organized according to the main constraints perceived and reported by the HEs, as summarized in the previous chapter (i) local government support and access to location, (ii) access to credit and financial services, (iii) access to markets, and (iv) voice and associations. A third section discusses the contribution of the NGO sector, and the chapter concludes with a summary of priority recommendations for developing HEs which could have a major impact on increasing the output and productivity of this sector.

### Rwanda's National Development Strategies

The development policies and programs of the Government of Rwanda clearly recognize that enterprise creation, growth, and sustainability are crucial to its poverty reduction and economic growth objectives (Table 10). However, very little attention is given to HEs, reflecting a general lack of understanding of their potential to make a significant contribution towards achieving these objectives. Rwanda's development strategies, while supportive of the informal sector in general, do not recognize HEs as key economic actors. They are either not differentiated from MSEs, or they are excluded entirely from Government support (e.g., the SME policy is limited to enterprises with hired labor). With no explicit policy framework for promoting their development, HEs are largely overlooked and their specific needs left unaddressed. There are a number of initiatives in support of microenterprises and HEs, but no single institution is tasked with coordinating them.

Although not directly targeted at HEs, Rwanda's development policies and strategies, as embodied in its Vision 2020 and EPRS, nevertheless provide scope for supporting the HE sector. Vision 2020 provides a roadmap to the country's development goal of transforming Rwanda to a middle income service economy by 2020 (Ministry of Finance and Economic Planning 2002a). Towards this vision, the EPRS (Ministry of Finance and Economic Planning 2007) spells out the country's midterm implementation strategy. Building on six pillars (Table 10), Vision 2020's third pillar explicitly promotes

private sector development, focusing on highly productive, export oriented enterprises which would provide employment for a very skilled labor force. It recognizes the informal sector as a key part of the economy, but without specific objectives towards which the sector can be supported. .

**Table 8 : Six pillars of Vision 2020**

Good Governance and a Capable State
Human Resource Development and a Knowledge-based Economy
Private sector-led economy
Infrastructure Development
Productive and Market-oriented Agriculture
Regional and International Economic Integration

Source: Ministry of Finance and Economic Planning 2002a

The EDPRS is framed around three flagship programs. Flagship one seeks to transform the economy through private sector-led growth, placing a strong emphasis on the importance of creating non-farm employment. Its main focus is on reforming the investment climate for large and medium enterprises.<sup>4</sup> Although some of the areas identified for policy intervention could potentially benefit HEs, they generally have not been tailored to meet the specific needs of these enterprises. Its second flagship, the Vision 2020 Umurenge Program (VUP), promotes pro-poor rural development and social protection to eradicate extreme poverty. VUP’s three components – public works, credit schemes, and direct support-- are likely to stimulate not only the creation of HEs, but also demand for their products and services.

*“VUP has increased people’s purchasing power and has stimulated the creation of different activities in the sector (tailoring shops, small shops, saloon bars, small restaurants). The majority of these activities, however, are not run by VUP beneficiaries, but others who think they can benefit from the increase in their purchasing power.”*

The third Flagship program aims to strengthen local government accountability (*Imihigo*) through community meetings and participation in which HEs can have their ‘voice’ heard. Results of FGDs reveal that this has not materialized, reflecting in part the lack of organization and collective action on the part of HEs, but also the limited role that local governments have in defining policies at the local level.

**In sum, Rwanda’s overarching national policy frameworks provide the scope for developing an environment that is conducive to enterprise growth and productivity, including those of HEs.** They represent a solid basis on which a national HE strategy can be built. By broadening and strengthening key policy areas, Rwanda can promote the growth of HEs and reduce their risks, thereby unleashing their potential to make a significant contribution to achieving the country’s employment creation and income generation objectives.

<sup>4</sup> This has resulted in Rwanda dramatically improving its position in the *Doing Business* ranking, *World Bank 2010*.

## Key Policies for HEs' Growth and Profitability

### 4.1 Accountability and Access to Location

**Studies in other countries suggest that the local economic environment is a key factor in HE growth and development** (see Kweka and Fox, World Bank, 2011). If local authorities support HEs and ensure that they have the facilities, infrastructure, and services they need to develop and sustain their business, earnings will be higher and, by extension, poverty lower. Rwanda's decentralization program has devolved responsibilities for land use planning, zoning, and the design and implementation of small economic infrastructure investments to subnational governments (districts and sectors). (Table 10. ) However, the overall policy agenda is determined at the national level. Since subnational officials (technical and political) are appointed by the central government, they are unlikely to deviate from the national policies, regardless of the needs of their constituency. The effective accountability is upward. This means local policies and programs are only as effective in supporting HEs as the national strategies allow, and accountability mechanisms such as *Imihigo* only have limited effectiveness in ensuring local government support to HEs.

**Table 9 : Roles and responsibilities of central and local governments under decentralization policy**

Level of Administration	Units After 2005/6 Reforms	Responsibilities Effective 2006
National/ Central	1	Policy Formulation; Resource mobilization; Capacity building; National Monitoring and evaluation.
Provincial	4	Co-ordinate District planning; Promote governance that develops a culture of peace, transparency and citizens' participation; foster alignment with national policies, laws and regulations; promote scientific research.
City of Kigali	1	Draw up city master plan; Strengthen City, Districts and Sectors capacity; Determine and implement city development programmes; Co-ordinate and analyse vital statistics on socio-economic development; Mobilise local and foreign funds to invest in the City of Kigali.
District	30	Ensure urban, economic and demographic development and enhance "poles of development"; Build the capacity of Sectors to enable them give better services to the population; Develop and implement District development plans; Co-ordinate and analyse vital statistics which indicate socio-economic development of the population; Coordinate District development programmes and give better services to the population, delivered at Sector level; Emphasize transparent management of public resources; Mobilise funds and other resources to invest in the District; Emphasise scientific research for District development; Promote ICT; Promote the social welfare of the population.
Sector	416	Give basic services; Analyse population problems and design development plans in which the population participate; Solve population problems; Collect basic statistics on which development activities shall be based; Sensitise the population to implement Government policies and programmes and to be patriotic; Ensure proper management of public resources; Coordinate specific Government programmes such as Gacaca, TIG and reconciliation committees; Promote ICT.
Cell	2,148	Assist the "Umudugudu" realise its objectives; Link the "Umudugudu" level of administration with that of the Sector; Collect basic statistics and deliver them to the Sector; Analyse population problems, co-ordinate their aspirations, prioritise them and take to the Sectors problems which are beyond the means of Cell; Resolve conflicts, and fight injustice; Promote education and good social behaviour; Promote peace and security.
Umudugudu/ Village	14,975	Collect basic statistics and deliver them to institutions which analyse, utilise and keep them; Promote ICT; Promote peace and security.

**For the most part, the actions and activities of local authorities have not been directed positively at the needs of HEs, but rather towards enforcing restrictive policies that limit access to public space for HE operations.**<sup>5</sup> The District and town regulations confine HE activity to designated marketplaces (usually covered markets) for which they collect market (user) fees. However, the

*"I did well before the local authority moved the market. Now I have difficulty feeding my family and cannot afford to send my children to school".*

increasing number of HEs has outstripped their ability to provide for or maintain these facilities. Sometimes markets are only open a few days a week, restricting the amount of time HEs are allowed to work. Moreover, local regulations prohibit HEs from operating in such central areas as sidewalks, bus stops, parks, and main roads (where, for example, bicycle-taxis are banned from plying), and noncompliance often results in police harassment or unnecessary penalties, i. e., confiscation of goods, destruction of property (temporary stalls, bicycles, equipment), or steep fines. Such punitive actions are reported to be more common in urban areas, and women hawkers seemed more likely to be subjected to them. A common complaint raised in FGDs is that local officials are more concerned about the appearance of their area of jurisdiction, but are indifferent to the welfare of HEs who are simply trying to make a living. From the perspective of local officials, on the other hand, the source of conflict arises from the general lack of understanding on the part of HEs about the importance of regulations.

*The taxes we pay are so high considering the kind of activities we do, and it is unfair because we do not pay taxes according to how well we do*

**There is also a widespread view in the Government that HEs are tax evaders, or that they do not pay their fair share of taxes.** On

the contrary, most HEs pay taxes as well as market fees (Tables A13 and A14), which to them are too high and are a heavy burden. The amounts are set by local authorities, and vary by location and type of operation, which HEs perceive as unfair partly because most of these taxes and fees are presumptive, i.e., they have to be paid upfront regardless of whether one's HE is profitable. While local authorities are motivated to collect them because they are important revenue sources, HEs resent these payments as they see very little returns from them. In some cases, market management is contracted out but not adequately regulated, hence HEs face the double burden of high fees and poor service. All this erodes earnings and opportunities for local economic development and poverty reduction.

*"There are many regulations that we have to enforce, and sometimes there is conflict between HE operations and the authorities. While the authorities like to get things organized, the HEs are only interested in making money without caring about instructions from the authorities. The only solution is to continue sensitizing them about new laws and regulations and monitor their compliance."*

**Policy changes are needed at the national level that give explicit recognition to the importance of HEs and legitimize their operations to local officials. Importantly, the central government needs to make**

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<sup>5</sup> The main laws governing this area are *Law NO 33/2003 of 06/9/2003 Modifying and Complementing the Law 10/05/2002 Establishing the Source of Revenue for Districts and Towns Management*

**these changes and convey them to local officials.** Only when this occurs can there be a more positive environment in which local authorities and HEs can resolve major sources of conflict regarding workspace, local fees, and service provisions. This requires changes not only in planning and zoning regulations, but also to the approach and attitude of local officials who enact and enforce them. *Without these changes, other interventions on finance or training will have a much lower, or even no, return.*

Local officials will need support and inputs from HEs in developing new policies, regulations, as well as support infrastructure, to facilitate HE activity. For its part, HEs can make a significant contribution to the local economic development programs of local governments.

#### **4.2 Access to credit and financial services**

**Since lack of capital and poor access to credit and / or its high cost are the major constraints to the start-up, operations, and expansion of HEs, addressing these constraints can have a strong effect on their growth.** Rwanda already has a number of programs to serve poor clients, but these do not seem to be doing the job. Napier (2010) counted 122 microfinance institutions in Rwanda as well as BPR and UOB that are supposed to serve poor clients (see Napier 2010- Appendix 3).

There are three Government guarantee funds administered by the NBR that are designed to help poor entrepreneurs access credit. The entrepreneur has to make an application and submit a business plan to a bank/microfinance institution. Then the financial institution has processes it and passes the application to the NBR for approval. To reach even poorer borrowers, a new facility has been started under the VUP program with a highly subsidized interest rate. This program will be run directly by the VUP administration because they could not identify a microfinance institution interested in running this program for them (VUP, 2011). (This is not surprising given the low interest rate required – no financial institution could possibly cover costs.) *At the time of the FGD interviews (August, 2010) very few recipients had been able to benefit from any of these programs.*

**What are needed now are new financial service products which are affordable and meet the needs of HEs.** The implementation of the new Umerenge SACCOS program, the cornerstone of the Government's ambitious financial sector access and savings mobilization strategy, is a step forward in the development of programs of financial access for HEs. The program seeks to ensure that basic financial services are available in each of the 416 geographical sectors in the country. With over 100 already established (Mukarugwiza 2010), the Umerenge SACCOS complement grassroots SACCOS which have been in place for some time, as well as the well developed network of MFIs providing credit to some of the more developed HEs. The few FGD respondents that had received a loan from the SACCO were pleased with the service. Although only a few were SACCO members, most had some savings. Many expressed interest in joining and getting credit once the service becomes available. Other possibilities are to increase access would be to aggressively support the expansion of mobile banking and mobile money services, as this seems to be a cheaper way for financial services to reach households (Box 5).

**Adequate attention should be given to monitor the performance of the Umerenge SACCOS program to ensure that its benefits reach HEs.** In addition, as the SACCOs broaden their scope and scale of operations, the Rwandan Government, in particular the National Bank of Rwanda (BNR), need to ensure that currently vacant supervisory positions in the SACCOs are filled. Not only is there a risk that HEs could lose their savings if SACCOS are not adequately supervised; there is also the risk that poorly designed loan products provided to HEs may result in non-repayment of loans, jeopardizing the viability of SACCO operations and hence financial outreach to HEs.

**Providing access to financial products and services, however, will not be enough.** Equally important is enhancing the capacity of HEs for financial management through training in basic business and financial planning (Box 6). This could be included in the financial access program. The Workforce Development Authority (WDA) should include such courses and training as part of its mandate as well. Recent research suggests that offering short “rule of thumb” courses on financial access and management is more effective than longer, principles-based courses (Drexler, Fischer and Schaar, 2010).

**Box 4 : How simple financial training based on rules of thumb can improve business management for households and microentrepreneurs**

Teaching financial literacy to small-scale entrepreneurs as a strategy to improve their money management, business strategies, earnings, and profits, has received increased attention in developing countries. Several studies have documented a strong association between household well-being and the understanding of financial concepts through better financial decision-making. The question is, how can training programs effectively reach the huge number of households and microenterprises in low-income Africa who are primary school leavers? Can simple but effective courses be designed and rolled out for all who need them?

A recent study on teaching financial concepts finds convincing evidence that teaching simple rules of thumb is an effective and affordable method. The study, which took place in the Dominican Republic, conducted a randomized control trial on the efficacy of two types of financial training programs: (i) the standard approach – a classroom course using traditional principles-based financial training in basic accounting techniques, and (ii) a short ‘rules of thumb’ course, which covered simple rules for financial decision-making, such as the need for keeping separate business and personal accounts. The latter is suitable for participants without secondary education, for example, and is cheaper to teach. The study also showed that receiving “rule-of-thumb” training produced better results than the more complex and time-consuming principles-based training.

For low-income African countries, the study shows that improving the financial literacy and decision-making of small business-owners without complete basic education, such as household enterprises (or farmers), is possible and cheaper.

*Source:* Drexler, Fisher and Schaar (2010)



### Box 5 : Kenya's M-PESA Financial Services

The VODAFONE M-PESA system provides financial services like a commercial bank. The customer can deposit, transfer, or withdraw cash with the M-PESA agent, who serves like a bank agent. The customer is required to complete a form with his/her personal information (name, number of cellular or mobile handset, and phone number) to be filled in the M-PESA communication system. After registration, a registered customer receives an SMS indicating his/her Personal Identification Number (PIN), which is a 4-digit secret code. The PIN number is to be used whenever the customer wishes to access account information, or perform financial-cum-banking transaction under the control of the M-PESA service network.

The M-PESA system can provide information on account balances, transfer funds from a registered customer's account to another, and receive notification of the transaction through a message on the mobile phone. It also allows the customer to change his/ her PIN number. Most of the VODAFONE customers are automatically registered by the M-PESA communication system for financial services. Any holder of a mobile or cellular phone qualifies to be 'a recipient end' to receive messages from the M-PESA network, even without being its customer. However, only members can store money

The customer can access his account balance, using a cellular or mobile phone screen in any location where network is available, to make transactions. For instance, a customer with an M-PESA account can instantly buy or pay for goods or services, which belong to another M-PESA customer. In Kenya, M-pesa is used in local markets, in supermarkets, and to pay electric bills.

The charges for M-PESA services are very low and affordable to low-income households (about 1.5 percent of the transacted value). To ensure the integrity and sustainability of the system, and guard against the risk of mass default, a regulatory oversight by the Central Bank is needed.

M-PESA in Kenya has reduced the percentage of the population without formal financial services by 10 points. For those who had no bank account before because bank charges were too high, M-PESA offers an opportunity for a secure storage of money

### 4.3 Access to markets

**Because of their small size, HEs struggle with market access. The Government has agricultural, trade, and industrial policies designed to increase market access, but these are not targeted at HEs.** The National Industrial Sector Promotion Program (NISPP) supports the development of medium and large enterprises only, primarily to provide secure wage employment to a growing skilled labor force in the urban areas. The more recent Small and Medium Enterprise Development Policy (SMEDP), while promoting the development of small enterprises, defined as those with one to three employees, effectively leaves out HEs. *In FGDs with HE owners, we could find no evidence that Government programs to support market access were having any effects.*

Rwanda's Agricultural Plan, the PSTA II, offers a support strategy for non-farm enterprises (including HEs) in rural areas as it specifically incorporates the rural non-farm sector into the plan. However, its focus is primarily on the development of the agro-processing sector for export and local markets through supply chain linkages between farms, firms, and markets. In this sector, moving beyond simple post-harvest activities, such as coffee washing and drying, or low-productivity grain milling, requires major investments in equipment and technology in order to meet local and export market standards, suggesting a scale of operations that HEs, as currently structured, cannot undertake. A livelihood focus

would suggest a strategy targeting other types of industry and service sectors more suited to undercapitalized HEs, and that take into account the education and level of skills of their owners.

**The only national sector strategy that clearly targets HEs with support during start-up, operation, as well as expansion, is the Rwanda Craft Industry Sector Strategic Plan (RCISSP).** This plan has been highly successful in encouraging the growth and development of HEs producing artisanal craft (e.g., baskets and other rattan goods) by forming them into cooperatives and facilitating the development of an integrated value chain for the supply of raw materials, standardization of product quality, and national and global product marketing and distribution. Rwandan products produced through the cooperative and marketed by private sector entrepreneurs fetch high prices all over the developed world. The industry provides substantial rural employment, especially for women. However, 80 percent of its export market is dominated by one company, the Gahaya Links. Other companies and non-profit NGOs focus on domestic distribution and marketing to tourists.

Similarly, Government initiatives have been successful in ensuring that artisanal (HE) miners comply with international standards for traceability, facilitating exports of Rwandan metals to the US and Europe. Artisanal mining has been successful because marketing channels are already in place. The Government plays a supporting role, setting standards and overseeing compliance through the miners' associations and cooperatives. However, even in this sector, the smallest miners complain of being left out as there is no private umbrella organization to represent their interest (Krakoff, 2011).

**Helping HEs with market access may require new approaches, such as working through NGOs or HE associations.** Changing attitudes would help as well. If the trading sector were to be well supported, large companies would want to use these informal channels to market their products, in much the same way mobile phone companies do now (see Monitor Group 2011 for a discussion of how this has worked in other countries).

**Along with its SME policy, the Government's employment policy supports an aggressive infrastructure development program to increase connectivity.** While not designed specifically to support HEs, the program's completion will provide an enabling environment for enterprise growth and development, including those of HEs.

#### **4.4 Association of HEs**

**One of the biggest constraints Governments, NGOs, and other stakeholders face in delivering support to HEs is the difficulty to cater to a large number of HEs across Rwanda.** The importance of organizing them into associations cannot be overstated. At the national and local levels, it can provide a useful channel through which HEs can have a strong voice to adequately represent their interests when framing policies that directly affect them. At the sectoral level (e.g., association of producers, traders, hairdressers, etc.), membership can provide support services, such as credit, training, market information, and advocacy.

**The national policy on cooperatives and the Rwanda Cooperative Agency (RCA) are designed to facilitate the formation of HE cooperatives and /or associations.** As a relatively new agency, the RCA does not yet have a clear picture of the dynamics of the HE sector, and of the types of organizational structure that best suit the different subgroups within it. To date, most cooperatives are in the agriculture sector at the local level (as producer associations). The craft and mining sectors are the only non-farm sectors to employ this strategy successfully because of favorable conditions already in place. The question remains whether this is the best approach. Most HEs within a sector do not have the same need for shared services (e.g., occasional use of equipment) as farmers do, for example. They tend to be very competitive within sector. Local organizations across sectors might work better.

**To get a better understanding of what types of associations might serve HE needs, RCA should conduct a survey that would elicit the views of HEs** in identifying specific groups that hold the potential for the greatest participation by HEs. Alternatively, with donor support, the RCA could provide grants or seed money to finance local experiments in creating HE associations. It could also engage with RDB to find entrepreneurs who see a role for HE associations to become part of value chains that link them to bigger markets and reduce their transaction cost. For example, it can help HEs to connect with potential suppliers, command a better price for their products, become bulk purchasers to get discounts, and/or take advantage of economies of scale in such areas as equipment leasing. Finally, Ghana is a country with a long tradition and history of creating associations, through its trade union movement and district Business Advisory Centers (BACs), from which Rwanda can draw important lessons.

#### **4.5 Training and Capacity Building**

**While Rwanda has a well developed training sector, HEs reports that they have not benefitted from enough training opportunities tailored specifically to their needs.** Developing the skills of the labor force is a government priority. A new policy framework for workforce training was recently developed, which covers HEs as potential beneficiaries. A new agency, the Workforce Development Agency (WDA), was created to serve as the regulatory body for the training sector. Its functions are to set quality standards for training curricula and delivery, promote and coordinate training programs, monitor and evaluate the performance of the training sector, and provide financing for targeted programs. The WDA is also setting up a Skills Development Facility (SDF) to fund the development of skills in core areas of which there are critical shortages, and improvements in the quality of programs offered by existing training institutions.

**Rwanda has a very active training sector, both public and private, which seems to benefiting HEs that are able to access it.** Of most relevance to HEs are the Vocational Training Centers (VTCs), which provide training for primary school graduates in crafts and trades common to the HE sector, such as tailoring, hairdressing, masonry, woodworking, and carpentry. There are 65 VTCs, about half of which are government-owned. There is also a vast network of informal trainers, including master craftsmen who take on apprentices, and NGO- or cooperatives-based training providers. Our analysis of HE earnings showed positive returns in 2006 to both (i) post-primary training, and (ii) apprenticeships, indicating the sector is having some success. But sector the sector has grown since 2006 well beyond the capabilities

of the market or the Government to discipline it and ensure continued high rates of return. While private training is regulated, in practice there are over 2,300 private training institutions, most if not all of which are not registered with the WDA, hence ensuring quality is an issue.

**Rwanda's training sector is heavily focused on providing technical skills**, as opposed to financial knowhow. As HEs take up technical training, especially apprenticeship, at about twice as much as the labor force as a whole, it is apparent that they have benefitted from such programs. However, in FGDs, most HE owners expressed the need for training in financial and business skills, and not technical training. The new SDF might be able to support the roll-out of these types of training.

One issue that the training sector needs to address is the overwhelming concentration of women in tailoring, cooking and food processing, and hairdressing. Apprenticeships of women in these activities usually do not have a high pay off. In skills for which demand is high (plumbing, carpentry, masonry, etc.), enrollment of women is low. Whether due to society's expectations, gender bias, or other reasons, it is important for policy to address gender segregation by ensuring that women have equal access to training for diverse occupations and to technology.

**Training can only be effective when there is demand for the products and services of HEs.** This means that until other issues affecting HEs are resolved (e.g., access to work locations and financing), training may not have the desired impact.

#### **4.6 NGO Support for HEs**

**A vast number of NGO programs and projects are targeted at HEs** (see Appendix 3). The majority of NGO programs are training-related. Some combine training with small grants for business start-up. Civil society organizations (CSOs) tend to provide support for specific groups, e.g., women, youth, people with HIV/AIDS, etc. Most programs focus on providing support to set up a business, which was criticized in FGDs because assistance after start-up is also needed. Few FGD informants had benefitted from such support, but those who had were generally appreciative of the support they received. Given the huge number of HEs operating in Rwanda, the demand for assistance is high, but available support is relatively modest because of lack of funding, as reported by many NGOs and CSOs. This reflects in part a huge fragmentation of effort. While this is quite common in low income countries, it means that whole is less than the sum of its parts.

Several organizations contacted complained lack of take up for their products. This may reflect the less than supportive policies of the Government – training can not be effective if it can not be used productively. Programs directed at women cited social attitudes limiting the scope of women's activities as a bottleneck. However, some NGOs may not be providing a product which is appropriate for the majority of the clients.

**Since systematic evaluation of many of these projects is rarely undertaken, it is difficult to measure their effectiveness.** Some programs could not even cite beneficiary assessment data. But a few did have evidence on outcomes – for example the literacy programs, where the number of women who passed

the test was available. Better monitoring and evaluation would help the Government identify which programs could be candidates for scale-up, and help the NGO or agency get the financing to do so.

**What is clear from the FGDs is that the vast majority of HE operators are unable to receive support from these programs**, and that even those who did at start-up rarely have ongoing support. *At the same time, there is no NGO which has as its mandate to provide voice and legitimacy for the HE sector to Government and stakeholders.* Most NGOs and donor programs are engaged in supporting a sector which itself is fragmented and lacking leadership. Thus, without a major change – possibly led by a government focal point in tune with the needs of the HE sector - the NGO programs are unlikely to meet the needs identified above.

#### **4.7 Recommendations**

**In sum, Rwanda’s policies provide a good foundation for the development of the HE sector, but only if they explicit recognize HEs as a key target group for government support.** With this recognition, the Government can use already existing policy frameworks to promote effective programs that will help households set up, operate, and grow sustainable HEs. The first step needs to be a specific policy framework which encourages HE growth and removes some of the constraints that currently hold back these enterprises and households. This policy should be developed within a Ministry or agency **which is given specific responsibility for coordinating programs of HE development.**

Key priorities for action should be:

- Review and revise legislations on planning and zoning regulations, in consultation with HEs. The revised regulations should expand opportunities for hawking and trading in urban areas, especially around transportation nodes. Regulatory provisions regarding the responsibilities of local authorities, including their performance contracts, may also need to be revised.
- Support the development of financial products that suit the needs of poorer households with HEs.
- Encourage and support the Workforce Development Authority (WDA) in developing and offering short “rule of thumb” courses on financial access and management.
- Encourage the development of local associations, and encourage RCA and RDB to engage directly with HEs to understand their needs and develop creative approaches to support them.
- All programs and policies need to be evaluated to make sure they reach their target and actually improve the welfare and sustainability of HEs. Ensuring that this takes place should be the responsibility of both MINICOFIN (as part of its overall oversight responsibility) and the agency with specific responsibility for coordinating HEs.

**Table 10: Government strategies and policies related to HE development**

POLICY / PROGRAM	HE-RELEVANT CONTENT	COMMENTS
<b>National Overarching Strategies</b>		
(i) Vision 2020	Sets out the national growth and development strategy. Includes pillar on private sector development of non-farm sectors to provide non-farm employment.	Focuses on highly productive, export oriented enterprises providing employment to a skilled labor force  Does not directly envisage HEs
(ii) EDPRS	Sets out strategy for sustainable growth for productive employment and exports including private sector growth and agricultural transformation	Focuses primarily on activities to support large scale, more productive enterprises. Supports SME, but mainly those in higher technology areas providing employment for a highly educated labor force
(iii) Vision 2020 Umurenge Programme	Sets up a number of programs to support incomes of the poorest households in rural areas, including public works and cash transfers, and subsidized loans for rural HEs under the Ubudehe Credit Scheme (UCS).	In supporting incomes, this policy and the programs help create markets for HEs in rural areas.  UCS program, when fully operational, could support HE start-up and sustainability. Effectiveness depends on local economic environment, including access to location.
(iv) National Employment Policy	Sets priority areas for development, including non-farm self-employment. Identifies growth of enterprises of all sizes as key to the creation of productive employment.	Includes informal enterprises and self employment as a category to be developed and supported.
Community development policy	Affirms community responsibility for economic development  Monitoring indicators include number of credit schemes and number of producer cooperatives.	Without changes in urban zoning policies providing HEs access to location, the schemes promoted in this policy are not likely to be successful.
<b>National Sectoral Strategies and Policies</b>		
<b>Industrial Development</b>		
(i) National Industry Sector Promotion Policy  (ii) Small and Medium Sized Enterprises Development Policy (SMEDP)	(i) The policy coordinates and supports a number of existing policies/strategies to improve Rwanda's competitiveness, including those that aim to increase non-farm employment, support value-added sectors in the Rwandan economy.  (ii) SMEDP provides the basis for programs to increase financial access and also for a number of capacity building initiatives such as the Rural and Small enterprises project, which provides short, on demand vocational	SMEDP only concerns enterprises with employees, thus excluding HEs.  Interventions not community based, so not accessible to most HE owners and potential owners.  As a result, interventions not targeted at

POLICY / PROGRAM	HE-RELEVANT CONTENT	COMMENTS
	training courses, and the development of the District BDS programs.	HEs.
Rwanda Craft Industry Sector Strategic Plan	Support for artisans to become merchant producers. Provides training, work space, a raw materials supply system and marketing, for those producing crafts, as well as organizing them into production centers.	Has the right objective to support HEs. Is the Government able to get producers into national and global value chains? Seems to particularly benefit women.
Strategic Plan for the Transformation of Agriculture in Rwanda (PSTA II)	As part of rural transformation, the strategy envisages the development of agroprocessing and other non-farm enterprises in rural areas. Improved farming methods, including large scale commercial agriculture, will invest and produce higher quality goods. Farmers are to be taught business skills so that they can add value to agricultural crops through agroprocessing activities.	Not likely to reach HEs  Most HEs are undercapitalized, and the owners have only moderate levels of education. Agroprocessing of high value crops requires equipment, skills, and technology well beyond the financing and management capacity of most small holder farmers.
<b>Finance</b>		
(i) Financial Sector Development Strategy and National Savings Mobilization Strategy  (ii) Umurenge SACCOS Strategy	(i) Sets out objectives and methods for increasing financial access for households and mobilizing savings for communities. Key instrument is community SACCOS at cell level.  (ii) Specifies program for creating SACCOS in every cell	On paper, the strategy targets HEs as potential client base. The SACCO strategy is designed specifically to fill this void. No recent survey information on penetration, performance of new cell-level SACCOS.  There is a danger that lack of skills in the community or supervision could cause losses to HEs who participate, or alternatively, that SACCOS could pull savings out of poor communities for use by richer individuals.  Training on financial literacy may be needed to increase demand for financial services.  SACCOS will need to develop products which meet HEs needs.
Loan guarantee funds (for women, youth, farmers, demobilised members of the armed forces, etc.)	Provide guarantees by the NBR for (a) a share of business development loans provided by a commercial bank or microfinance institution, or (b) insurance to indemnify micro-finance institutions against default (VUP program)	Could support access to credit by HEs, especially if combined with informal BDS services or apprenticeship training where appropriate.  VUP negotiations with micro finance institutions on lines of credit failed to reach agreement on a program.
<b>Local Government</b>		
(i) Various regulations and policies on rights of local governments to impose taxes, license requirements, and fees on businesses	These regulations provide for the following:  (a) annual profit tax on property used for profit making activities  (a) requires all businesses including HEs	These regulations and enforcement vary from place to place, but they often impose high taxes/fees on HEs which may not even be making a profit.

POLICY / PROGRAM	HE-RELEVANT CONTENT	COMMENTS
	<p>to have a license (<i>patente</i>), renewable annually, and to pay a fee for the license to local governments</p> <p>(c)allows local governments to set user fees for local infrastructure use, including for market space for HEs. Fees are supposed to be used for maintenance.</p>	
(i) Regulations on access to location for work	Local authorities are required designate areas where businesses (primarily traders) can operate, and to fine/prosecute businesses who do not comply.	These zoning regulations negatively affect HEs. They often separate HEs from their clients/customers, and limit the growth of HE if there are not enough workspaces.
<b>Training</b>		
TVET policy	<p>Regulates and finances public and private providers to deliver a wide range of post school formal and informal training courses and apprenticeships for employees, employers, and HEs, in both rural and urban settings.</p> <p>Sets up Workforce Development Agency (WDA).</p>	Training opportunities for HEs, especially future HEs are expected to expand under this new policy.
<b>Associations</b>		
(i) National Policy on Promotion of Cooperatives  (ii) Rwanda Cooperative Agency (RCA)	Promotes cooperatives as essential tool for organizing and aggregating HEs so that they can be integrated in to supply chains and have access to markets	Associations are essential for HE development. However, it is not clear that a cooperative is always the best structure. Other private sector bottom of the pyramid (BOP) strategies might be more effective and cheaper.
<b>Sub-national Strategies and Policies</b>		
(i) Community development and the <i>Imihigo</i> accountability mechanism	<p>Under Rwanda’s decentralization strategy, planning is supposed to be “bottom-up”. Starting at the lowest administrative level (the cell), local processes set priorities for infrastructure development, including community assets, road maintenance.</p> <p>Activities are defined under the 3 EDPRS pillars.</p>	<p>Rwanda’s centralized policy-making structure does not provide much scope for community innovation or deviation. Because local officials are appointed by higher levels of government, their orientation is upward. It is hard for this process to be a counterweight to ensure that the interests of the HEs are taken into consideration when infrastructure is developed, for example, if the national policies are not supportive.</p> <p>The number of complaints from HEs about the location and quality of the markets and other infrastructure services which should be provided to HEs by local authorities through the community planning processes suggest serious problems which monitoring indicators do not pick up.</p>



POLICY / PROGRAM	HE-RELEVANT CONTENT	COMMENTS
(ii) Local zoning regulations	National policy and regulations give communities the responsibility for zoning where people can live and work.	<p>These decisions are constrained by national regulations (which forbid hawkers on the sidewalks, for example).</p> <p>Police seem eager to enforce regulations denying access to location.</p>
(iii) Local fees, charges, and fines	Local governments set these fees, which provide income for projects.	<p>Potential for inequities:</p> <p>(a) the lack of consistency between Districts means that similar businesses face vastly different fees depending on area and governance; and</p> <p>(b) small, low turnover businesses could be hurt by flat fees and minimum presumptive taxes.</p>

## 5. CONCLUSIONS

**The foregoing analysis confirms that HEs constitute an economically important sector of the national economy, not only in terms of employment but also as a source of livelihood.** Although agriculture remains Rwanda's largest employment source, the doubling in the share of those working in HEs between 2001 and 2006 indicates that this sector has been providing significant employment opportunities. That 30 percent of households rely on HEs for income, and an increasingly large share of rural households operate them to diversify their income portfolio, illustrate the crucial role of HEs as a livelihood source. HEs also serve as an important vehicle for women's participation in economic activities, although the share of women active in this sector is still low in Rwanda.

**The study also demonstrates that the bulk of HEs are small (one-person, owner-operated) trading enterprises, although the range of HE activities is quite diverse.** In analyzing the productivity drivers of HEs, the study provides evidence that education and training matter. Although not all HE activities require a high level of education, higher educational attainment, in particular completed primary education, is clearly linked with higher earnings. Another factor associated with higher earnings is post-school technical and vocational training. Yet, the majority of HE owners have low levels of education, and that very few have had technical or vocational training.

**Several factors are found to constrain HEs from raising their income and productivity, and increase their risks.** Lack of access to market and suitable work locations, due to a large extent to restrictive regulations that limit areas in which HEs can operate, constrains the growth and development of the sector. Finance, in terms of both access and cost, is reported to be the biggest constraint to starting up as well as operating an HE. The study points towards the lack of both capacity to handle a loan and cash income as the primary reasons for the poor access of HEs to financing. These findings indicate that removing these constraints could have a favorable impact on HEs' growth and productivity.

**The Government of Rwanda already has enabling policies that are supportive of enterprise growth, but they are not directly targeted at HEs, and often ignore HEs in their implementation.** The benign neglect of the HE sector stems in part from the lack of understanding of its dynamics and potentials, which this study sought to address. An explicit recognition of HEs and a better appreciation of their economic significance, therefore, are important first steps. Redefining existing policies (on trade, rural development, employment and SMEs, to name a few) and broadening their scope to incorporate the HE sector will benefit all enterprises across the board, including HEs. Key policy actions aimed at reforming the environment for private sector development should take into account the needs of HEs. Finally, the study calls for supportive HE policies to be integrated into Rwanda's broader poverty reduction strategy, the EDPRS, to ensure that household enterprises benefit from its targeted programs, including the VUP, credit guarantee scheme, and direct support programs.

## Appendix 1: Definitions used in this Report

Concept	General Description	Statistical Descriptions	Comments
Household Enterprises (HEs)	Nonfarm businesses operated by individuals alone or with the support of other members of the household, but without hiring any employees except on a casual basis. That is, they only have family workers or casual non-family workers. Does not have any employees with a formal contract. Unincorporated; this may mean that the finances of the enterprise are mixed with those of the household.	<ul style="list-style-type: none"> <li>• Self-employed without employees (non-agricultural)</li> <li>• Own-account workers (non-agricultural)</li> <li>• Contributing/Unpaid family members – see definition below</li> </ul>	May or may not be subject to regulation; may or may not have any registration or license; may or may not operate full-time all year; may or may not pay taxes.
Micro Enterprises (Non-agricultural Household Enterprise with employees)	As above, but employ at least one person outside of the family on a more than casual basis	<ul style="list-style-type: none"> <li>• Self-employed with regular employees (non-agricultural)</li> </ul>	As above. No size limitation.
Informal enterprise	Definitions vary across countries and authors. In general, refers to an enterprise not recognized, regulated, or protected by existing legal or regulatory frameworks. Often used to describe firms evading regulation using legal or illegal means.	<ul style="list-style-type: none"> <li>• Unregistered firm</li> </ul>	Informality of firms has to be defined with respect to national regulations. Often firm size is used as a proxy, but actually any sized firm can evade or comply with (or be exempt from) regulation.
Family workers, non-agricultural	People living in the household who work in the non-agricultural business. May also include close relatives not living in the household.	<ul style="list-style-type: none"> <li>• Contributing/unpaid family workers</li> </ul>	The adjective “unpaid” is often used without actually checking on how earnings are shared
Employee	A person who is paid to do a task for someone unrelated to them in exchange for payment.	<ul style="list-style-type: none"> <li>• Employee in a wage job, paid in cash or kind</li> </ul>	Synonym is “job”; the term “ <i>employment</i> ” includes employee as well as employer and anyone engaged in nonwage economic activities, with or without remuneration
Employer	Normally, the owner of business (incorporated or unincorporated), who employs at least one person outside of the family on a more than casual basis	<ul style="list-style-type: none"> <li>• Employer</li> <li>• Business-owner</li> <li>• Self-employed with employees</li> </ul>	Any business owner with one or more non-casual employees is an employer, regardless of the status of the enterprise.
Informal workers	Definitions vary across countries, but normally these workers do not have a contract, or the contract is not in accordance with the labor regulations and/or are not covered by the national social insurance system.	<ul style="list-style-type: none"> <li>• Employee</li> <li>• Did not sign a written contract when started job</li> </ul>	Not related to the characteristics of the firm, only characteristics of the job; informal workers may work in formal firms.

## Appendix 2: Additional Tables

**Table A1: Primary Employment Distribution, 2000/1 and 2005/6**

	2000/1	2005/6
Wage employment, <i>of which</i>	11	24.5
Public	2.4	3.2
Private	5.2	10
Agriculture	3.4	11.4
Self-Emp/Non-Wage, <i>of which</i>	89	75.5
Household enterprise	4.1	9.0
Family farm	84.8	66.4
<b>Total</b>	<b>100</b>	<b>100</b>
Annual growth rate of employed population		3.5

*Source:* EICV 2000/1 and 2005/6.

**Table A2: Primary and Secondary Employment Distribution by Sex and Region, 2000/1 and 2005/6**

<b>2005/6</b>								
	Primary Job				Secondary Job			
	Male	Female	Rural	Urban	Male	Female	Rural	Urban
Wage employment, <i>of which</i>	35.3	15.8	20.3	47.5	30.8	39.7	35.9	28.2
Public	5.0	1.7	2.3	7.8	1.7	1.4	1.6	1.5
Private	16.5	4.7	5.7	33.2	10.5	2.6	6.5	7.9
Agriculture	13.8	9.4	12.3	6.5	18.7	35.7	27.8	18.7
Self-Emp/Non-Wage, <i>of which</i>	64.7	84.2	79.7	52.5	69.2	60.3	64.1	71.8
Household enterprise	11.4	7.1	6.5	22.7	14.7	21.2	17.4	21.8
Family farm	53.2	77.2	73.2	29.7	54.5	39.1	46.7	50.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>2000/1</b>								
	Primary Job				Secondary Job			
	Rural		Urban		Rural		Urban	
	Male	Female	Male	Female	Male	Female	Male	Female
Wage employment, <i>of which</i>	30.0	12.6	61.7	34.1	31.2	41.0	27.7	28.7
Public	4.0	1.0	10.1	5.6	1.7	1.4	1.5	1.6
Private	10.8	1.6	44.5	22.6	10.5	2.2	10.1	6.0
Agriculture	15.1	10.0	7.1	5.9	18.9	37.5	16.1	21.1
Self-Emp/Non-Wage, <i>of which</i>	70.0	87.4	38.3	65.9	68.8	59.0	72.3	71.3
Household enterprise	9.8	3.9	19.6	25.7	14.5	20.6	16.6	26.6
Family farm	60.2	83.4	18.7	40.2	54.4	38.4	55.7	44.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Source:* EICV 2000/1 and 2005/6.

**Table A3: Percentage of Household with Source of Income, 2000/1 and 2005/6**

	#		%	
	2000/1	2005/6	2000/1	2005/6
Wage-public	89,836	139,661	5.6	7.4
Wage-private	214,404	232,082	13.3	23.1
Wage-agriculture	231,938	162,291	14.4	34.6
Household enterprise	299,928	710,501	18.6	30.7
Family farm	1,462,208	501,320	90.8	89.5
All households	1,610,147	1,892,069	100.0	100.0

*Source:* EICV 2000/1 and 2005/6.

**Table A4: Percentage of Household with Enterprise, 2000/1 and 2005/6**

	2000/1	2005/6
Kigali	27.8	33.4
Other Urban	43.1	35.9
Rural	14.9	25.5
City of Kigali	38.3	37.4
Southern Province	19.0	25.5
Western Province	11.4	26.3
Northern Province	18.9	23.0
Eastern Province	13.9	31.6
Total	18.0	27.7

*Source:* EICV 2000/1 and 2005/6.

**Table A5: Education distribution of HE owners and Employed, by Gender: 2005/6**

	HE owners (15+)			Employed (15+)		
	Male	Female	All	Male	Female	All
Never attended school	13.2	23.6	18.0	19.3	30.5	25.5
Incomplete primary	50.1	43.5	47.1	49.7	46.3	47.9
Complete primary	25.6	19.9	23.0	20.1	15.6	17.6
Incomplete secondary	9.0	11.8	10.3	6.5	4.9	5.6
Complete secondary	1.6	1.2	1.4	3.3	2.2	2.7
Tertiary (University)	0.5	0.0	0.3	1.1	0.4	0.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

*Source:* EICV 2005/6.

**Table A6: Education Distribution by Age Group, 2005/6**

	Never attended school	Incomplete primary	Complete primary	Incomplete secondary	Complete secondary	Tertiary	Total
15 - 19	6.7	69.9	10.8	11.2	1.4	0.0	100.0
20 - 24	11.6	53.3	15.9	9.4	8.9	0.9	100.0
25 - 29	15.3	43.1	25.9	7.0	6.5	2.3	100.0
30 - 34	17.6	39.5	26.4	10.0	4.5	2.0	100.0
35 - 39	26.0	33.8	24.1	9.6	4.9	1.5	100.0
40 - 44	34.9	38.2	15.3	8.2	2.4	0.9	100.0
45 - 49	37.9	38.9	15.2	5.4	1.8	0.7	100.0
50 - 54	43.1	37.5	13.1	4.3	1.7	0.4	100.0
55 - 59	47.5	36.3	9.6	4.3	1.8	0.5	100.0
60 - 65	57.4	34.0	4.4	3.1	0.6	0.5	100.0
Total	20.4	48.9	16.9	8.6	4.2	1.0	100.0

Source: EICV 2005/6.

**Table A7: HE owners and Total Population Share, by Age group**

	2000 Share of HE owners in that age group	Share of Population	2005 Share of HE owners in that age group	Share of Population
15 - 19	3.3	14.2	3.8	12.7
20 - 24	7.9	8.7	12.2	10.6
25 - 29	11.4	5.9	16.2	7.2
30 - 34	13.8	4.7	18.0	5.2
35 - 39	13.4	4.6	16.6	4.1
40 - 44	10.0	4.5	15.6	4.2
45 - 49	9.6	3.5	14.6	3.6
50 - 54	7.3	2.6	11.5	2.8
55 - 59	3.9	1.8	11.3	1.8
60 - 65	5.7	1.8	7.6	1.5
Total	8.1	52.2	11.9	53.7

Source: EICV 2000/1 and 2005/6.

**Table A8: Industry Sector of Household Enterprises, by Gender, 2005/6**

	Male	Female	Total
Mining/Nat.Res./Forestry	5.3	0.8	3.3
Manufacturing	11.2	9.7	10.5
Construction	1.3	0.0	0.7
Wholesale/retail	58.1	77.5	66.7
Transp./Communication	6.5	0.2	3.7
Finance/Real State	0.4	0.0	0.2
Public services	0.4	0.1	0.2
Other services	16.9	11.8	14.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Source:* EICV 2005/6.

**Table A9: Gender of Enterprise Manager, by Area 2000/1 and 2005/6**

	2000/1			2005/6		
	Rural	Urban	Total	Rural	Urban	Total
Male	60.9	43.0	55.8	56.7	46.1	54.3
Female	39.1	57.0	44.2	43.3	53.9	45.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Source:* EICV 2000/1 and 2005/6.

**Table A10: Percentage of Employed Population by Training and Apprenticeship, 2000/1 and 2005/6**

		2000/1	2005/6
Training	All	4.0	11.6
	HE owners	7.6	18.0
	Non-HE owners	3.6	10.5
Apprenticeship	All	8.0	13.6
	HE owners	23.6	25.6
	Non-HE owners	6.4	11.6

*Source:* EICV 2000/1 and 2005/6.

**Table A11: Share of population above 15 being recent migrants, 2000/1 and 2005/6**

	2000/1			2005/6		
	Total	HE owner		Total	HE owner	
		Yes	No		Yes	No
<b>All</b>						
Total	25.1	32.1	24.5	10.3	10.4	10.2
Rural	20.5	20.1	20.5	7.5	7.9	7.5
Urban	61.8	62.5	61.6	23.1	18.6	23.9
<b>Male</b>						
Total	23.3	26.5	23.0	11.6	10.9	11.7
Rural	18.2	17.2	18.3	8.9	8.7	9.0
Urban	62.5	59.8	63.1	23.8	20.4	24.4
<b>Female</b>						
Total	26.6	39.1	25.7	9.1	9.7	9.1
Rural	22.3	24.4	22.2	6.3	7.0	6.3
Urban	61.1	64.5	60.2	22.5	17.1	23.5

Source: EICV 2000/1 and 2005/6.

Notes: A recent migrant is defined as an individual that moved to their current location within the last 5 years.

**Table A12: Household with access to credit, 2005/6**

		Rural	Urban	Total
Formal	State bank	5.5	6.5	5.7
	Private bank	4.6	17.0	6.6
	Rural credit	28.0	33.6	28.9
	Agricultural association	19.1	34.7	21.6
	Co-operative	34.1	7.7	29.8
	NGOs	54.5	33.5	51.0
	Enterprises	5.2	6.9	5.5
	Other	1.2	9.2	2.5
Traditional/Informal	Money lender	14.5	5.9	13.1
	Trader	7.1	7.9	7.3
	Farmer	99.6	73.3	95.2
	Parent/friend/neighbor	32.0	8.1	28.1
	Tontine, community funds	6.1	2.7	5.6

Source: EICV 2005/6.

Note: the total row was omitted since households may have more than one source credit.



**Table A13: Registration and payment**

	Share HE registered	Share HE paid tax/fee
Local authorities	61.0%	61.0%
Income Tax	12.5%	14.0%
VAT	3.7%	
Legal name	6.6%	
Other	25.7%	47.1%

*Source:* Structured focus group interviews, 2010.

*Note:* data cover entire sample (136) and those that have not answered the question are assumed to be a negative response

**Table A14: Mean and average tax/fee for those that pay**

	Local taxes	Income tax	Other	Total
Mean	20,452	18,321	8,903	28,065
Median	10,000	18,000	3,000	12,000
Observations	60	14	52	70
Mean share of revenue	4.8%	4.9%	1.1%	6.1%
Observations	60	14	50	68

*Source:* Structured focus group interviews, 2010.

**Table A15: Importance of HE income source**

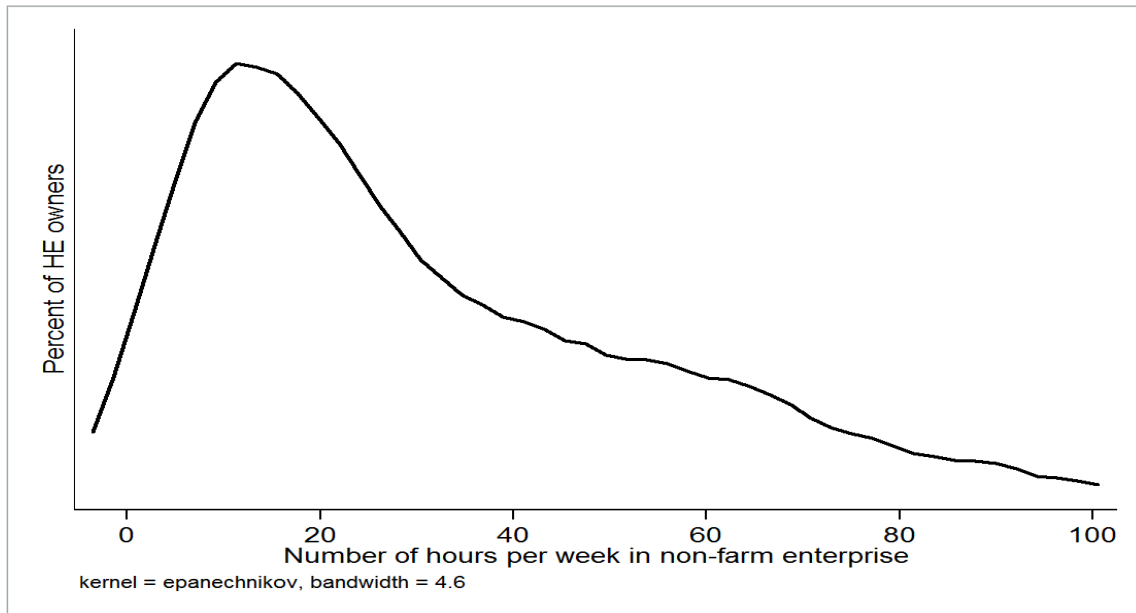
	Kigali	Other Urban	Rural	Total
Main/sole	80	90	67	79
Supplementary	20	10	33	21
Total	100	100	100	100
Observations	30	52	51	133

*Source:* Focus group interviews, 2010.

**Table A16: Mean of variables used in regression analysis**

	He Male	HE Female	HE ALL	Urban	Rural
Male manager			55.4	47.4	57.8
Age of manager	33.9	34.1	34.0	33.3	34.3
Age of manager squared and divided by 100	13.0	13.3	13.1	12.2	13.4
Manager single	27.8	26.6	27.2	27.7	27.1
Manager married	70.1	47.0	59.8	55.3	61.1
Manager divorced/widowed	2.1	26.4	13.0	17.0	11.8
Manager migrant	13.3	11.5	12.5	23.2	9.4
Never attended school	13.2	23.6	17.9	11.9	19.6
Primary, not completed	48.4	42.8	45.9	36.6	48.6
Completed primary	26.1	19.9	23.3	25.8	22.6
Post primary vocational education	5.2	7.4	6.2	9.7	5.2
Incomplete secondary	4.8	4.9	4.8	10.7	3.1
Completed upper secondary or above	2.3	1.4	1.9	5.3	0.9
Past apprentice	23.9	18.7	21.6	23.1	21.1
Months operated last year	9.1	8.6	8.9	9.5	8.7
HE is part-time	29.1	38.8	33.4	17.2	38.1

**Figure A1: Distribution of HE hours worked, 2005/6**



Source: EICV 2005/6.

### Appendix 3: Directory of Projects and Programs to Support HEs in Rwanda.

#### Government Programs/Agencies/Institutions Supporting HE Services

	Name/Title	Type/Designation	Target Beneficiaries	Key objective	Problem Addressed	Type of Intervention	Participating Institutions	Expected Outcomes for Beneficiaries	Financing Sources	Challenges	Contact details
1	The UMURENGE SACCOs (COOPECS) project	Government program	General	To increase access to financial services to local citizens in each sector.	Citizens in rural/remote areas not getting access to services, as banks and other MFI's are mostly concentrated in the towns/ urban areas not rural/ remote areas.	Provision of loans/credit and savings services	Minaloc, BNR, RCA	a) Increased access to financial services (loans, savings) in rural areas b) accessible village banking c) savings mobilization, promotion of investment, economic growth and poverty alleviation	Voluntary savings	Low participation of some citizens especially those that are already part of other MFI's	Vincent RUTAREMARA Director of Planning and Cooperatives Capacity Building Rwanda Cooperatives Agency Tel. +250 788353597
2	AGASEKE Promotion Project	Local Government Programe	Vulnerable landless women	Employment and sustainable livelihood for vulnerable women.	Unemployment.	Training in handicrafts and organisation into cooperatives	Kigali City Council and Imbuto Foundation	Sustainable livelihoods.	KCC and Imbuto Foundation.		Kigali City Council
3	Rural Micro-and Small Enterprise Project (PPP-MER)	Government Programme	Rural vulnerable groups.	To support the development of non-farm enterprises in rural areas especially for vulnerable groups.	Need for diversification in rural areas and the establishment of sustainable non-farm enterprises.	Apprentice scheme. Literacy programme.. Skills and business training. Promotion of cooperatives. Access to credit. Marketing – value chains in tailoring, handicrafts, cassava processing, fruit processing and honey.	Ministry of Trade and Commerce, Local authorities.	Sustainable enterprises in rural areas.	International Fund for Agricultural Development and Government.	Need data on effectiveness.	Ministry of Trade and Industry.
4	Private Sector Federation (PSF)	Government driven initiative/ professional/ advocacy/ umbrella organisation	SME's, local and international business entrepreneurs	To defend and represent the interests of the private sector both locally and internationally and provide a platform for consensus building among members on issues of government policy.	Further improvement needed to make Rwanda an independent economy (private sector led economy)	Mainly advocacy (dialogues with government, donors, unions, NGOs) and business development (network of development centres).	WDA, Government GTZ,	Conducive business environment, private enterprise owners issues addressed or solutions facilitated for the business constraints they face.	Government	Despite the restructuring of PSF, business challenges persist b) Lack of a business mindset  Does not actively represent HEs	<a href="http://www.psf.org.rw">http://www.psf.org.rw</a>
5	Rwanda Cooperative Agency (RCA)	Independent agency	Cooperatives	To oversee the operations of cooperatives through regulation, promoting, registering, monitoring and supervising operations of the different cooperatives to ensure effectiveness.	Unauthorized associations, cases of cooperative leaders swindling and misusing members' money/ contributions/ savings.	Regulation, promoting, registering, monitoring and supervising operations of cooperatives	BNR, District offices	Cooperatives working in favor of their members, clear and transparent leadership, members able to improve and start enterprises.	Government	Weakness in organizational levels of cooperatives and internal problems in cooperatives	Vincent RUTAREMARA Director of Planning and Cooperatives Capacity Building Rwanda Cooperatives Agency P. O. BOX:6249 Tel. +250 788353597

Government Programs/Agencies/Institutions Supporting HE Services												
6	Workforce Development Authority (Mineduc)	Government agency	Youth, institutions	To empower Rwandans with the right skills for successful implementation of national development programmes	Skills development challenge across all Rwandan sectors	Skills development through vocational training, business incubation, labour market information systems, setting industry standards, regulation and accreditation.	MINEDUC, Vocational/technical centres workshops	a) Quality and competent staff-employees b) skills development c) access to facilities for business incubation and innovation purposes c) Availability of technical personnel in the country	Government	New agency	What are the demands of the labour market and is that taught in the curriculum.  Many small programs to oversee/regulate	<a href="http://www.wda.gov.rw">http://www.wda.gov.rw</a>
7	TVET	Government programme under MINEDUC	Youth (school leavers, drop outs) and demobilized soldiers and minority groups	To provide the economy with qualified and competitive workers and to train citizens able to participate in sustainable growth and poverty reduction by ensuring training opportunities to all social groups without discrimination	Demands of the growing private sector and Government's focus on cooperatives and small business development.	Vocational training(initial & continuing) – Technical Education -Continuing TVET	To produce artisans and workers who possess technical skills and attributes of problem solving, teamwork etc.	Activities of public training institutions are not recognized in the private sector. -No working experience in private sector for TVET instructors, -Few girls/women enrol for the TVET programme -Curriculum and teaching methods not responding to labour market demands	Government	Labour-related challenges such as the gap between the demands of the labour market and what is taught in the curriculum	Eric Niyongabo TVET expert - MINEDUC ericniyongabo@yahoo.co.uk	
Civil Society Projects Supporting HE's												
Name/title	Type/Designation	Target beneficiaries	key objective	Problem addressed	Type of intervention	Participating institutions	Expected outcomes for beneficiaries	Financing sources	Challenges	Contact details /Contact person		
General												
1	ASSIST Rwanda	NGO operating since 1999	OVC's/child heads of household/ youth	To give OVC's an equal opportunity, restore their confidence and building skills leading to social and functional integration.	youth unemployment	a) Provides training opportunities b) negotiates jobs in cleaning companies for OVC's for 2years and then financial support to set up a small business (can be an HE) c) through its cottage industry (candles, soap) employs OVCs (girls mainly), d) Has a bee-keeping project, goat-keeping e) Weekly training in HIV/AIDS.	BYAID. co.ltd, COOJAD(youth cooperative), UBAKA MFI	a) skills development and entrepreneurship for the OVCs and youth, community. b) OVCs form cooperatives and solidarity groups to access credit and receive starter kit from PPMER to work independently.	British Embassy (funding for cottage industry)	Shortage of staff and lack of support to pay for operational costs.  Need evidence of effectiveness	<a href="http://www.assist-rwanda.org">www.assist-rwanda.org</a>	
2	Catholic Relief Services	NGO	OVC's	Support OVCs and street kids in vocational training in financial services	Orphans, vulnerable children with no support in terms of education and wellbeing (physical and mental)	Vocational training - 6 months-1yr, participants receive health insurance, introduction to a savings vocational training, business skills, psycho/social support, HIV/prevention training. Upon graduating each participant receives about \$150 worth of tools e.g. sewing machines	CARITAS, CHAMP	Through the savings program can get start-up capital for a small business	Volunteer donations	Limited funds to reach emergency areas with humanitarian aid in a timely and efficient manner	<a href="http://www.crs.org">www.crs.org</a>	

**Government Programs/Agencies/Institutions Supporting HE Services**

3	Concern Worldwide	NGO working in 3 districts (Nyaruguru, Gakenke, Huye)	Vulnerable people	To improve the livelihoods aiming at long term development of people and responding to emergencies in poor countries	Problems of poverty, vulnerability and emergencies	Has a social protection programme, Offers support for agricultural increase in production Trains vulnerable households in income generating activities and cooperative management. Seats on the joint action development forums to evaluate their work and avoid replication of services	International organizations, governments	Increased engagement in income generating activities, improvement in livelihood	Community-based collectives; socially responsible business donations or fundraising; sponsored events, support from the European Union, the UN, the British government and from a distinguished list of other government agencies, private donors, and major trusts.	The diversity of cooperatives to work with.	Contact person: Joanne Smyth- <a href="mailto:joanne.smyth@concern.net">joanne.smyth@concern.net</a> / <a href="http://www.concern.net">www.concern.net</a>
4	Destination Nyungwe	Project funded by USAID through the Small Grants project- SGP	Community members of Nyungwe	To widen options for the alternative livelihoods for the Nyungwe population	To develop community tourism products, to conserve the forest and improve livelihoods.	Small grants are given for skills training and facilitation of business proposals submitted by associations of Nyungwe community members	Nyungwe-based associations, USAID	Skills development from training in effective communication for tourism purposes, embroidery, modern farming methods, bio-diversity conservation, honey extraction, pottery, weaving, mushroom growing, energy saving cook stoves, soap production etc	USAID, PEPFAR	Poor road network due to geographical location which hinders access and the linkage to markets. Cost of production is too high	Contact person USAID; FINA 0788 304369
5	Association des Eglises Pentecôtes du Rwanda (ADEPR)	Association	Community members	To provide literacy centres offering both formal and informal community education and promote Christian values	Illiteracy among the Rwandan population	Runs extensive nation-wide literacy (6 months) and vocational training program for women	MINEDUC - education materials, CARE, GAHAYA Links	Development of skills from vocational training even to engage in trade, and literate members of society who can make informed choices.	MINEDUC, Rwanda De-mobilization Committee, CARE, CHAMP, Global Fund and Canadian, Swedish agencies	Sustainability issues and ownership from the women even without funding  Needs evidence on effectiveness	Contact person: Josephine Mukarugwiza Manager B P 404 Kigali 0846 7086 mukajose2000@yahoo.fr
6	Rwanda Integrated Rural Project and Mini Functional Adult Literacy project	Projects implemented by ADRAA since 2007/08	Illiterate Community members in Nyagatare and Karongi	To enhance the capacity of community members to alleviate poverty	The high adult illiteracy rates and the poverty levels	RIREP is founded on functional adult literacy and has a learning methodology combining teaching in literacy with numeracy and issues on sanitation, nutrition, food security, handicrafts, business management, savings and cooperatives.	MINEDUC, Karongi / Nyagatare District offices	Enhanced knowledge and skills of 72 FAL teacher instructors, 22,400 FAL learners passing exams after class 3. Households with improved health, savings potential and improved social status	DANIDA, USAID, CIDA, Government development agencies		ADRAA contact person 0788 300451

Government Programs/Agencies/Institutions Supporting HE Services											
7	MTN	Mobile Money project operating since 2010	General populace (MTN mobile users/businesses people/employers)	-To facilitate how cash is transferred, to reduce costs	The cost of doing business and security of money in transaction	Using mobile money agents engaged in business who get mobile money users and register on a commission basis.	Business entrepreneurs (agents)	Outlets evident in all districts, 250 in total so far, and 130,000 registered active users, Frw 1.8 billion exchanged in transaction.	MTN	<b>Mobile money</b> is a new money business. Some people find it hard to entrust their money. The issue of cash availability to match the demand in business areas.	<a href="http://www.mtn.co.rw">www.mtn.co.rw</a>
	MTN	Village phone with GRAMEEN FOUNDATION since 2006		- To provide telecom services to underserved areas in Rwanda with limited access to phone services	Rural areas still facing limitations in access to phone services.	Offers public access solutions: selling mobile phone airtime through SMS's and selling direct calls.	MFI's (Urwego Opportunity Bank, Vision Finance), MTN dealers and distributors,	-Public access phones generating employment -MTN village phone kiosks running successful. -6700 pay phones were provided and operational -increasing number of mobile phone applications being developed for health, agriculture.	GRAMEEN FOUNDATION (Village phone)	<b>Village phone:</b> the operator had to make money and adopt the business model of MTN. Focus has mainly been in rural areas and yet there is a growing need for public ICT access in urban areas.	
<b>Women</b>											
8	Women for Women International	NGO	Women	Creating peaceful and stable societies through women led community change	The lack of empowerment of many women victims of war circumstances	Direct financial assistance from women sponsors worldwide.  Rights education  Vocational skills training Income generating opportunities	Gahaya Links for training purposes and District offices	Empowered women in terms of their rights, mentally and physically well, decision makers, women who can sustain incomes and who have networks and safety nets.	Women sponsors in UK,USA,NZ	Markets - W4W is trying to move away from handicrafts	<a href="http://www.womenforwomen.org">www.womenforwomen.org</a>
9	Association of Muslim Women for Development – AFMD	Association	Women	To reach out to young women, especially prostitutes and house maids.	Illiteracy of young women, idleness and the failure to find jobs	Training in literacy programs, peer support, technical training in tailoring (1year) and HIV awareness	Prostitutes and house girls	a) Empowerment of women to end their involvement in prostitution and plight of job searching b)income generation through the sewing machines offered to the associations/ cooperatives formed by the women.			Sagamba Mutegarugori <a href="mailto:sagambaafmd@yahoo.co.uk">sagambaafmd@yahoo.co.uk</a>
10	Gahaya Links	For profit company	Women weavers	To weave lasting peace by providing skills with economic opportunities for the women and a few men for economic development.	Need to support underprivileged women as a result of genocide, poverty	Increasingly empower a number of women artisans. Uphold market by becoming a leading exporter of Rwandan handicrafts products like beautifully woven baskets, home décor, jewellery and textiles.	Government, Fairwinds Trading Inc, Macys,Starbucks, USADF,RDB, UNIFEM ,among others	Increased traditional technical weaving skills among women thus leading to empowerment and improvement in socio-economic development.	USADF, MINICOM	Marketing,, Need improved technology/ machinery to speed production	<a href="http://www.gahayalinks.com">www.gahayalinks.com</a>

Government Programs/Agencies/Institutions Supporting HE Services											
11	CARE International	NGO	Women, the marginalized segments of the populace not reached by MFI's	Focuses on informal education, economic security (VSLA's) and HIV/AIDS/health services	a) High dropout rates of children in school from primary to secondary b) cost of schooling esp secondary level. c) The lack of access to MFI services	a) Vocational training (training of apprentices by local entrepreneurs) b) connected to a higher vocational training network. c) linking with banks to access more capital	Banque Populaire	Women /girls in rural areas freely accessing alternative informal education thereby being empowered socially and economically People accessing financial services through the VSLAs	Co-funders and own savings from VSLA's	Cultural barriers that hinder empowerment of women Accountability issues and building trust among group members.	<a href="mailto:care@care.org.rw">care@care.org.rw</a>
12	Global grassroots conscious social change for women	Non profit organization founded 2004	Women - genocide survivors, widows, women with HIV/AIDS, physically disabled women, women living on less than \$2 per day, under-educated women and survivors of sexual assault.	The core is to cause conscious social change among marginalized women in post-conflict countries, delivering skills and improving the wellbeing of women, in terms of the number of successful ventures launched and their positive social impact.	The plight of underprivileged and marginalized women, female-headed households who have no income and support	Trained over 250 Rwandans who have designed over 30 social projects benefiting marginalized women and girls and offering grants to start which include a) Providing access to clean water b) protecting women from domestic violence and asserting property rights, through training, idea exchange and debate c) Providing fuel -efficient stoves d) training for men and women on gender equality .	Civil society organizations	a) Successful ventures/projects launched b) Empowered women creative-ly and sustainably solve social issues that they face in their communities c) Improved social wellbeing and capacity to create change	Individual and partner organizations	Funds availability or sustainability not obvious	<a href="http://www.globalgrassroots.org">http://www.globalgrassroots.org</a>
13	Goldman Sachs Entrepreneurship certificate program	Charity run as program by SFB operating since 2008	Women entrepreneurs	Seeks to give 10,000 women all over the world including Rwanda a business and management education.	The numbers of underprivileged women and yet with demonstrable financial need and academic readiness.	Provide scholarships for women entrepreneurs to do 6 month entrepreneurship courses and best performers get 10,000 USD as starting capital to run a business.	School of Finance and Banking	- 120 women have graduated and attained certificates. - Job creation - Women more resilient and businesses positioned for growth	Goldman Sachs, William Davidson institute	Financial constraints which limit sponsored women	<a href="http://www.wdi.umich.edu/executive">http://www.wdi.umich.edu/executive</a> education/women-entrepreneurship contact person; Agnes Uzarerwa programme manager <a href="mailto:uzagnes@hotmail.com">uzagnes@hotmail.com</a>
14	Agaseke Promotion project	Women economic empowerment project operating since 2007	Women (prostitutes, hawkers)	To empower women economically and improve their livelihood and that of their families.	There are many widows due to the genocide and female-headed households which are also landless. These engage in activities that barely sustain their livelihood	Offer training in weaving (peace baskets), ear-rings, wall hangings Make production centres available for women	Kigali City Council, UNIFEM, MINICOM	Promoting Rwanda's products as well as women gaining expertise in handicraft making. Women being able to get income. and running household enterprises/ businesses, Women's confidence built	UNIFEM	-Sustainability in case there are no funds available. -Limited demand for services -The lack of skill in cooperative management and leadership yet these women work in cooperatives the reasons that led most beneficiaries to leave or lose commitment. (Beneficiaries have reduced from 1,326 to 500).	Kigali City Council
5	PROFEMME TWESE HAMWE	Non-profit organization operating since 1992	Women	To combine efforts for change so as to eradicate all forms of discrimination and violence towards women and to facilitate exchanges between the 50 member organizations	Discriminations and violence towards women	Institutional and organizational capacity building, advocacy for the improvement of women's health and socio-economic status, expanding partnership to new stakeholders and promoting a culture of	-Public and private partners ; -Regional and International organisations ; -Bilateral cooperation ; -United Nations Agencies ;	Gender mainstreaming in all policies and programs, Improvement of women's health and socio economic status,	UNIFEM, Global Fund, PSI, USAID, UNDP	Slow change in mentality towards gender promotion, limited resources, widespread poverty, high maternal and infant mortality.	<a href="http://www.profemmes.org">http://www.profemmes.org</a>

**Government Programs/Agencies/Institutions Supporting HE Services**

						peace.	-Rwandan Civil Society organisations.				
<b>Youth</b>											
17	YES Rwanda (Youth Employment Systems)	NGO	Youth	To develop the capacity of young people to create sustainable livelihoods and establish an entrepreneurial culture of self-employment. 30 young people (child heads of household) were trained for the labour market	The growing unemployment in Rwanda	Intervenes through four program areas; policy research and advocacy, communication and outreach, business and entrepreneurship development and youth livelihood. Runs a business incubator to support emerging businesses	Education Development Centre,	Youth expertise built in employability, skills attainment, basic and vocational education, job placement, small business development and advocacy. Businesses established and profitable.	Education Development Centre	Private sector ability to absorb youth in wage jobs	<a href="http://www.yesrwanda.org">http://www.yesrwanda.org</a>
18	AJPRODHO (Youth Association for Human Rights Promotion and Development)	Registered as an NGO since 1997 at NUR	Youth	To help youth develop entrepreneurial skills to do income generating activities which may grow from micro to medium enterprises.	Lack of viable and relevant opportunities for youth for earning a living	An entrepreneurship programme for young people and helps in obtaining credit.	World Bank, Legal Aid Forum	Youth socio-economic development a) in and out of school activities b) training in how to start micro enterprises c) how to obtain credit d) how to engage the civil society e) developing a spirit of entrepreneurship spirit among young people	World Bank	Lack of access to capital, lack of enough capacity-building training	Contact person: John Mudakikwa Exec Secretary 078830 8964
18	Akazi Kanoze	Project funded by USAID since 2008	Youth (14-24yrs)	To develop a thriving youth livelihood support system to increase the prosperity of public/private institutions. To support youth to develop soft skills to enable employability.	High youth unemployment	Capacity building, career counselling, job placement services, training of trainers on 8 modules of work readiness curriculum	Utexrwa, Esters Aid, COATB, Search for Common Ground, EDC, Never Again Rw, WDA AVSI, CRS, MIFOTRA	Youth finding employment,	USAID	The capacity of the private sector to absorb the youth, needs a strong private sector Youth want fast results, with less procedure and requirements, which is sometimes not the case	USAID contact person; FINA
19	FIYO (Fight Illiteracy Youth Organization)	Project operating since 2003	Youth	To promote literacy education through its 45 literacy centers in 2 districts and support a secondary school in Bugesera.	Seeks to address illiteracy whose rate is still high	Offers literacy courses for 8 months in 45 centres in Kigali and eastern province, trains volunteer teachers	KIE (Literacy teachers	Beneficiaries able to read and write and engage in income-generating activities for livelihood.	WB, EU through the rural sector support	Due to lack of funds FIYO has closed 15 centers	



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