

REPUBLIC OF RWANDA



**Guidelines on the provision of start up
toolkit/equipment loan facility under National
Employment Program**



I. Background

In 2004, the Ministry of Trade and Industry (MINICOM) initiated a project to support rural small and micro enterprises (PPMER II) with the objective of fostering entrepreneurship and capacity building of rural SMEs in different trades. This project was funded by IFAD up to June 2013 and AfDB through CEDP up to April 2014. This funding was able to cover only 21/30 districts supporting apprenticeship schemes where 14,507 youth were trained in basic vocational activities. Among them, 12,427 were facilitated to acquire start-up kits. In June 2014, Building Inclusive Financial Sector In Rwanda (BIFSIR) funds were used to support the remaining 9 districts that were not covered by both IFAD and AfDB funded projects.

In 2014, the Government of Rwanda initiated the National Employment Program for promotion of self employment and job creation among youth, women and people with disabilities. Given that the NEP has the mandate of harmonization and coordination of the new and already existing job creation interventions, the component of promoting hands on skills and provision of start up toolkit/equipment will be rolled out in all Districts to facilitate self-employment for graduates from TVET, short term vocational training and apprentices. Under this program, Youth trained in different vocational fields, with great potentials in terms of profitability and market availability in their respective location will be supported to have start up toolkit/equipment subsidized loans through financial institutions.

In addition to acquiring practical skills trainings, candidates are also eligible to acquire other NEP facilities e.g. Business Advisory Services provided by BDAs to enable them prepare small and bankable business proposal related to their vocational field, BDAs voucher scheme facility and BDF Guarantee scheme.

II. The Start-up Toolkit/Equipment Loan Facility under National Employment Program

2.1. Objectives of start-up toolkit/equipment loan facility

The purpose of the facility is to:

- Create new jobs through facilitating graduates from TVET and Apprentices to access finance to establish their small enterprises;
- Support the entrepreneurship and self job creation initiatives among graduates of TVET, short term vocational training and apprentice;
- Increase SACCOs capacity to extend small loans to new businesses to support job creation for the youth.



2.2. The design of the Facility

Under the Facility, an eligible candidate will get from his SACCO 100% funds necessary to cover the cost of necessary toolkit/Equipment to start his small enterprise. A percentage of the funds varying between 20% and 50% will constitute a Government Grant to the beneficiary. The remaining will be a SACCO loan to the beneficiary to be paid back according to the terms of a loan contracted to be signed with the SACCO. The grant component of the facility will depend on the total value of the cost of the toolkit/equipment according to the following formulae:

Facility allowance	Grant component
<500,000 FRW	50%
>500,000 – 1,000,000 FRW>	40%
>1,000,000 – 2,000,000 FRW>	30%
>2,000,000 FRW	20%

To limit the moral hazard negative effects associated with Government subsidized loan facilities, the loan component of the start-up toolkit/equipment loan facility will be managed as a BDF credit line to eligible SACCOs under the following conditions:

- The SACCO will pay an interest rate of 4% of the outstanding amount of which 2% will be paid to BDF as management and guarantee fees and the remaining 2% will be deposited to toolkit/equipment loan facility account opened in SACCO by BDF to increase the revolving funds;
- The payment of the loan installments will be credited to the same account;
- Repayment and grace period should be negotiated by both SACCO and loan applicant;
- The applicant own contribution should not be mandatory;
- SACCOs should bear the financial risks: SACCO should therefore implement a strong monitoring and application appraisal prior and during the loan duration to minimize the risks of defaults. To cover the financial risk, SACCOs will charge a 15% interest rate maximum to beneficiaries.
- The financial resources to fund the Facility will be extended to BDF by MINICOM and are provided for through the MINICOM Budget.

2.3. Eligible SACCOs to receive start up toolkit/equipment facilitation Funds

After consultation with RCA, MINECOFIN, MINICOM and SACCOs representatives, the following criteria were proposed for SACCOs to benefit from start up toolkit/equipment facilitation Funds. These are:



- (1) SACCOs with graduates from TVET, short term vocational training and apprentices residing in the proximity as per WDA and Districts' report;
- (2) SACCOs in the 1st, 2nd or 3rd Class as per BNR SACCO Rating Report of every previous December;
- (3) SACCOs has to fulfill criteria (1) and (2) simultaneously;
- (4) SACCOs willing to sign MoU with BDF on this product.

2.4. Disbursement arrangement of Startup toolkit/equipment loan funds to SACCOs

- MINICOM will transfer availed funds to BDF upon an MoU on funds utilization modalities as enclosed in these guidelines;
- BDF will sign MoUs with participating SACCOs which will describe the reciprocal responsibilities between BDF and SACCOs in the implementation of the startup toolkit/equipment products;
- BDF will therefore open a toolkit/equipment loan facility credit line to participating SACCOs and proceed with disbursement of funds upon SACCOs request/application;
- SACCO will use the received funds to finance the value of startup toolkit/equipment loan and the promoter will pay back the loan component to the BDF account opened in the SACCOs to constitute revolving funds for the same product;
- Funds remaining on the MINICOM accounts named "(1) Apprenticeship and (2) Apprenticeship/BIFSIR programs will be transferred to the new BDF toolkit/equipment loan facility accounts opened in SACCOs by BDF.

2.5. Modalities to access start up toolkit/equipment loan facility

- The facility is open for only graduates from TVET, short term vocational training and apprentices who have a certificate delivered by WDA, or any other program approved by NEP steering committee following modalities stipulated in these guidelines;
- SACCOs will receive loan applications from TVET and Apprentices graduates, analyze the financial viability of the business, approve and disburse the approved funds;
- The maximum loan size for an individual borrower is set at 500,000 FRW;
- The maximum loan size for group/cooperative and company borrower is set at 5,000,000 FRW and the individual member of that cooperative, group or company should not exceed 500,000 FRW;
- SACCOs will receive 3 proforma invoices from different suppliers of the startup toolkit/equipment chosen by the loan candidates;
- SACCOs will pay the amount equivalent to the loan for startup toolkit/equipment directly to the supplier's account after completion of all loans approval process and verification of asset quality;
- SACCOs will provide quarterly report to BDF on the status of funded loans and recovery progress;



- Beneficiaries of start-up toolkit/equipment loan facility are also entitled to BDF guarantee scheme. However, beneficiaries of start-up toolkit/equipment loan facility shall not be entitled to Youth and Women access to finance grant under MIGEPROF managed by BDF.

2.6. Monitoring of the Facility

- SACCOs will ensure that the reporting requirement indicated in the MoU signed with BDF including the agreed report format is followed;
- BDF through its District Kora Wigire Branches will monitor regularly to ensure the accuracy of business information of the beneficiary and the veracity of the information reported by the participating SACCOs;
- Districts through Business Development and Employment Unity will monitor on daily basis the operationalization of the product and ensure that access to finance forum are used to unlock challenges related to start-up toolkit loan facility;
- BDF will produce a quarterly report on the implementation status of the Facility to be sent to the members of the NEP Steering Committee.

Done at Kigali, on 25.1.06/2015



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and Chairperson of NEP Ministerial Steering Committee