

PDBBX408

AGENCY FOR INTERNATIONAL DEVELOPMENT
**PROJECT IDENTIFICATION DOCUMENT
 FACESHEET (PID)**

1. TRANSACTION CODE
 A = Add
 C = Change
 D = Delete
 Revision No. A
 DOCUMENT CODE 1

2. COUNTRY/ENTITY
RWANDA

3. PROJECT NUMBER
 010101

4. BUREAU/OFFICE
 A. Symbol AFR
 B. Code 06

5. PROJECT TITLE (maximum 40 characters)
 RURAL ENTERPRISE DEVELOPMENT PROJECT

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION
 A. Initial FY 91
 B. Final FY 92
 C. PACD 95

7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 =)

FUNDING SOURCE		LIFE OF PROJECT
A. AID		6,000
B. Other U.S.	1.	
	2.	
C. Host Country		2,000
D. Other Donor(s)		
TOTAL		8,000

8. PROPOSED BUDGET AID FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. 1ST FY <u>91</u>		E. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) DFA	200	840		2,200		6,000	
(2)							
(3)							
(4)							
TOTALS				2,200		6,000	

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	TNG	COOP	PVON	PVOU
B. Amount				

12. PROJECT PURPOSE (maximum 480 characters)

To improve the operational and productive capacity of rural Micro, Small and Medium Enterprises and Cooperatives.

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff: USAID/Rwanda PDO & FSN Private Sector Assistant
 (1) Micro-Enterprise Specialist, 3 weeks
 (2) Private Sector Specialist, 4 weeks
 (3) Economist, 3 weeks
 Funds (4) Minimalist Credit Specialist, 4 weeks
 Approximate PDS funds required \$70,000

14. ORIGINATING OFFICE CLEARANCE
 Signature: James A. Graham
 Title: James A. Graham, Director, USAID/Rwanda
 Date Signed: 08/02/91

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
08/21/91

16. PROJECT DOCUMENT ACTION TAKEN
 S = Suspended
 A = Approved
 D = Disapproved
 CA = Conditionally Approved
 DD = Decision Deferred

17. COMMENTS

18. ACTION APPROVED BY
 Signature: _____
 Title: _____

19. ACTION REFERENCE

20. ACTION DATE
 MM DD YY
 | | | | | |

R W A N D A

-  Tsetse infested.
-  Isolated tsetse specimens.
-  Proposed control zone.

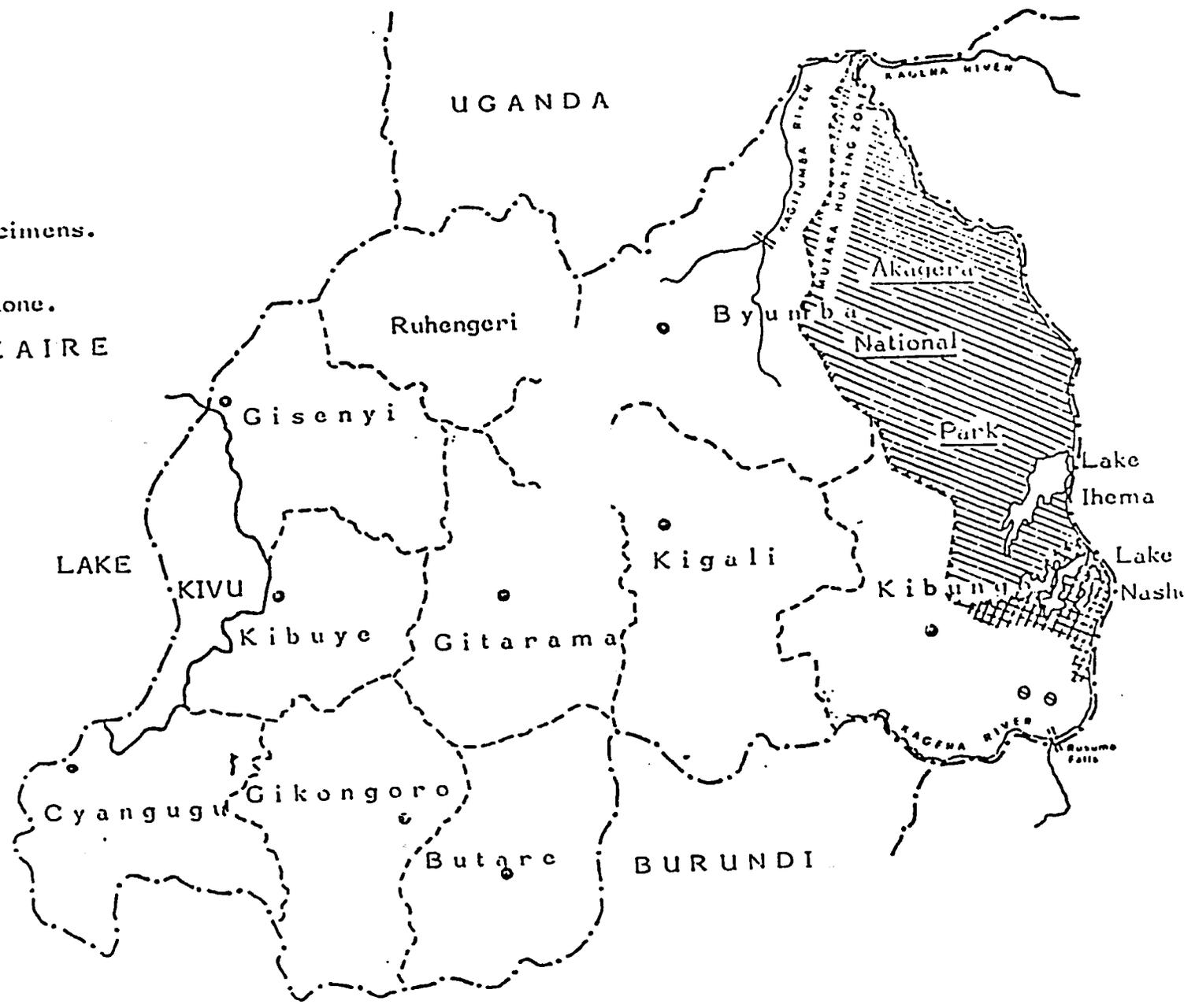


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PROJECT IDENTIFICATION DOCUMENT
RURAL ENTERPRISE DEVELOPMENT PROJECT

I. PROGRAM FACTORS

A. Conformity with Recipient Country Program Strategy

The Rwandan economy is dominated by the private sector. It contributes close to 80% of GDP and is responsible for 94% of total employment. Of the GDP, the agricultural sector accounts for 42%, services 42%, and manufacturing 16%. These sectors are 95%, 66% and 67% private, respectively. However, most of the private sector is small scale. It is estimated that 91% of the population is involved in either agriculture or informal activities. Only 9 percent of Rwandans are employed by the modern formal economy and 3% are employed by the formal private sector.

Yet, as the CDSS observes, population on arable land is estimated at 390/km², the highest in Africa. This figure could rise to more than 800 persons/km² by the year 2000, at which time virtually the entire arable land base will be in production. The most important determinant of economic growth in the past -- expansion of the arable land base -- will no longer be possible. As Rwanda's farms become even smaller and more fragmented, agriculture will be incapable of providing productive employment for the majority of the population.

In addition to decreased population growth and increased agricultural productivity, it is clear that Rwanda will have to expand its non-agricultural employment in order to develop opportunities for economic growth. The Government of Rwanda (GOR) has come to this realization in recent years and has expressed its desire to devote more resources and attention toward achieving this goal.

The major focus of this project is to support private sector activities as a mean of increasing off-farm employment opportunities for Rwandans in the rural areas. The project responds to a felt need, and conforms to the GOR's priorities as expressed by the President of the Republic on January 15, 1989, upon the presentation his government's program for the years 1989-1994. The following goals were expressed, inter alia, regarding national production which are relative to this project:

- Systematic intensification of the agro-industrial sector; and
- Intensification of activities in the artisanal sector and small-and-medium-sized industries throughout the country to promote non-agricultural employment.

The President of Rwanda has further stated that the "commune", a local government administrative unit headed by a "bourgmestre" with a population of about 30,000, must be the center of development for the country. This project supports the President's directives since it will focus on economic growth and employment generation in the rural communes.

The Ministry of Industry and Artisans (MINIMART) is responsible for the implementation of GOR strategy to achieve the goals cited above. Although this project will be implemented through private non-governmental organizations, project activities will be coordinated through MINIMART and the Ministry of Youth and Associations (MIJEUMA) which is responsible for the registration and regulation of cooperatives.

B. Relationship to the CDSS (FY 1988) and Action Plan (1990-1991)

The Rural Enterprise Development Project will fill an important gap in USAID/Rwanda private sector portfolio. Two of the Mission's private sector projects, the Private Enterprise Development Project, and the Cooperative Training Project are scheduled to terminate on March 31, 1991. This project will build on the successful experience of those projects and continue to support those elements which warrant additional support. The project is also complementary to other USAID-assisted activities such as PRIME (696-0127).

The goal of USAID/Rwanda program strategy is - Sustained broad-based increase in per capita income in the rural areas.

The subgoals are:

- Reduced fertility rates from 8.5 to 7.8 percent by 1994; and
- Increased agricultural production on a sustained natural resource base.

One target of opportunity is:

- To increase investment and productive off-farm employment, especially in rural areas, through private sector growth.

This project will address this target of opportunity and is in full accord with the Mission's 1990-1991 Action Plan. It also responds directly to the Africa Bureau Private Sector Development Policy which seeks to "foster the growth of productive self-sustaining income and job producing private enterprise".

II. PROJECT DESCRIPTION

A. Perceived Problems

In accordance with the Africa Bureau Private Sector Strategy, USAID undertook a series of studies to improve its knowledge of the private sector. These studies yielded a wealth of information and have been key to identifying major constraints and opportunities for the development of this PID. Some of the major studies undertaken include: a) the Manual for the Private Sector (MAPS); b) an investment climate study; c) a financial sector study; d) an appropriate technology study; and e) two evaluations covering the on-going private sector projects. The MAPS study, which was by the far the most comprehensive of all the studies and the most recent, identified the following core constraints affecting the Rwandan private sector:

- limited access to credit but not an overall shortage of credit: For Micro and Small firms, the biggest constraint to obtaining credit is perceived to be loan security requirements. Since many of the Micro and Small enterprises have no title to their land and few fixed assets, security requirements essentially exclude them from any formal sector borrowing. Formal credit organizations' contributions to Micro and Small business financing are only 8% from the Banques Populaires, 6% from the Banque Rwandaise de Développement, and 5% from the commercial banks.
- shortage of management and technical skills;
- ineffective private sector associations;
- constraining policy environment;
- low levels of private investment; and
- poor export performance.

After a careful analysis of its strengths, its recent experience with three private sector projects, and the limited resources available, USAID has decided that this project will only address the following principal problems:

1. Insufficient management, technical and financial skills and resources (credit and raw materials) necessary to stimulate rural productive activities; and
2. Shortage of institutions to support the private sector, particularly for micro and small enterprises.

Following is a brief discussion of why the Mission decided that the other constraints were outside the scope of this PID:

1. Poor Export Performance: The MAPS study show that Rwandan exports have declined sharply in the latest three years. Coffee and tea represent 90% of the country's exports and low prices for these commodities have caused a steep decline in export earnings. The merchandise trade deficit rose to 13% of GDP in 1988, twice the total export receipts for that year. The economy has remained remarkably closed, with official exports accounting for only 6.5% of GDP in 1988. Rwanda imports the equivalent of 40% of its export earnings from African countries in the region; by contrast, exports to African countries represent only one percent of official Rwandan exports.

According to Rwandan firms surveyed, the biggest constraints to exporting are lack of market information, export taxes, and export procedures. Exchange rate distortions have also made it difficult to export, as Rwandan producers have found their products overpriced compared to other substitutable goods. (The Rwandan franc is currently overvalued by about 35% in real effective terms according to the IMF.) Given the structural nature of the problem, the Mission concluded that this project could not effectively address Rwanda's poor export performance. USAID is hopeful that the current economic structural adjustment negotiations between the GOR and the World Bank and IMF will result in policy changes that will create a more favorable export climate.

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2. **Constraining Policy Environment:** Key policy areas which are considered to negatively affect the private sector are : a) exchange rate policy; b) protectionism and import substitution bias; c) taxation policy; and d) business registration procedures. In 1985, USAID became one of the first donors to be closely involved in private sector policy reform in Rwanda with the introduction of the PRIME Project. In that project, USAID played a pioneer role in working with the GOR to analyze and adjust macro-economic and sectoral policies affecting private sector development in Rwanda. Under PRIME initiatives, the GOR has adjusted the investment code, rationalized tariff policy, and reduced administrative procedures required to register business.

Despite the policy initiatives begun under the PRIME, much remains to be done to improve the policy environment for the private sector. The recent downturn in the economy and pressure from many of the donors have forced the GOR to rethink its position on many of its policies. The World Bank and the IMF, backed by promises of a considerable infusion of resources to Rwanda, have taken the lead in the policy reform discussions with the GOR. On another level, USAID and the GOR are currently negotiating the Conditions Precedent (CP) for the release of the third tranche of funds under the PRIME project. The CPs, as currently envisioned, will further address the reduction of registration procedures for small businesses, initiate a program to provide greater access to government procurement for small firms, and seek to promote greater private sector investment. Given the substantive involvement of the multilateral donors at the policy level and the limited resources available to the Mission, USAID will continue to strongly support the donors in this area, and continue its on-going policy dialogue under the PRIME project.

B. Project Goal and Purposes

1. **Goal:** To increase rural employment and income generation activities in Rwanda through the stimulation, creation and development of rural Micro, Small and Medium-sized Enterprises (MSMEs) and cooperatives.
2. **Purposes:**
 - a. To improve the operational and productive capabilities of rural MSMEs and cooperatives;
 - b. To improve the access to credit of rural MSMEs and cooperatives; and
 - c. To develop the capability of private, indigenous institutions to respond to the demands of rural enterprises and cooperatives for credit, goods and services.

The project will achieve the goal and purposes cited above through the provision of technical assistance and training to targeted rural enterprises that will enable them to increase their operational and productive capabilities. The project will also seek to increase access to credit, particularly for micro and small entrepreneurs, in order that they might expand production and improve their ability to respond to market opportunities through the timely acquisition of raw materials. Furthermore, by providing

short-term technical assistance and training (from local sources, whenever possible) to enable private, indigenous institutions to improve their operations and deliver increased services more efficiently to MSMEs and cooperatives, this project should be able to impact on the growth of MSMEs in Rwanda beyond the life of the project.

C. Expected Achievements and Accomplishments

The project expects to achieve the following quantifiable results relative to each purpose:

Purpose #1: Improve the operational and productive capabilities of targeted rural MSMEs and cooperatives.

Indicators:

- #1a. Increased number of trained personnel.
- #1b. Increased production.
- #1c. Improved quality of products.
- #1d. Increased linkages between informal micro and small enterprises and formal sector businesses.

Source of Data: Sample of enterprises receiving project interventions (surveyed both before and after receiving interventions).

Purpose #2: Improve access to credit for rural MSMEs and cooperatives.

Indicators:

- #2a. Increased number of loan applications and loans approved for rural MSMEs and cooperatives.

Source of Data: Records kept of loan applications and approvals by IWACU & the "Banques Populaires".

Purpose #3: Develop the capability of private, indigenous institutions (NGOs) to respond to the demands of rural enterprises and cooperatives for credit, goods and services.

Indicators:

- #3a. Increased numbers of local, indigenous NGOs providing services to rural MSMEs and cooperatives.
- #3b. Increased services or programs offered by private, indigenous institutions to rural MSMEs and cooperatives.
- #3c. Increased capabilities and sustainability of local institutions offering services to rural MSMEs and cooperatives.

Source of Data:

#3a. & #3b. - Surveys performed by Rural MSME Development Coordinator both at start of project implementation and on a periodic basis afterward.

#3c. Ratings of local institutions by Rural MSME Development Coordinator on period basis.

D. Outline of the Project and How it Will Work

The project proposes to use a two-track strategy. One track will address the needs of cooperatives through IWACU, a local NGO which provides training and services to cooperatives. The other track will address the needs of MSMEs. It will provide both direct assistance to MSMEs and development support to local NGOs which provide services to MSMEs. In both instances, the project will be building on the successful elements of on-going private sector projects.

The project will assist enterprises operating in the formal and informal sectors. It should be noted that the informal sector is not subject to many of the government policies which limit expansion in the formal sector. In fact, as experience in many developing countries has shown, the informal sector often grows as a result of government intervention in the formal sector.

The project will go beyond working exclusively with artisans and will address the development of MSMEs working in the agro-industrial sector, small traders serving local markets, and micro-enterprises providing basic services to rural consumers. Artisanal development will be encouraged where there are possibilities for increased markets, either locally or nationally. The project implementation will last four years and will cost approximately \$6 million.

1. Cooperative Development

Support for cooperative development will constitute one of the major project components. These activities will represent a continuation and expansion of activities financed under the Cooperative Development Project, currently scheduled to terminate on March 31, 1991. USAID will provide funding directly to the Cooperative Training Center (IWACU) through a Cooperative Agreement. It should be noted that IWACU is the only indigenous NGO in Rwanda registered with AID/W. Under the Coop Development Project, funding was provided to CLUSA, an American PVO, through an OPG to assist IWACU. However, because of CLUSA's success in strengthening IWACU's institutional capacity, USAID can now provide funding directly to IWACU. CLUSA will still continue to provide technical assistance, as needed. The activities under this component will include:

- Cooperative mobilization, training, market development research, and technical assistance;
- Project analysis for member cooperatives for loan applications and approval/disapproval for its loan guarantee program; and
- Commercialization of cooperative products.

IWACU will use its extensive training and service departments to accomplish those activities. It will contract with local, indigenous private sector support institutions as well as with locally-based American PVOs to provide specialized technical and advisory assistance to member cooperatives, as required. It will also continue to develop its relationship with the "Banques Populaires" to provide greater access to credit by cooperatives. IWACU operates a small, successful loan guarantee program for the benefit of its member coops. The guarantee program is operated in association with the "Banques Populaires". Although this project will not provide any funding for this program, USAID has learned that the Swiss government will provide the equivalent of approximately \$1 million to increase the scope of the guarantee program.

2. Micro, Small & Medium-Sized Enterprise Development

The MSME component will seek to reach a broad category of enterprises needing assistance. The activities of this component will include:

- The provision of a wide variety of short term training to improve skills of entrepreneurs. This training will include financial, management, and other business support training, as needed. The MAPS study identified lack of skilled labor as one of the most important resource constraints and recommended that training should be provided to small businesses, which generally are in most acute need.
- The provision of technical assistance to identify and support local, indigenous institutions which provide services to MSMEs. The MAPS study concluded that private sector associations were not meeting the needs of a majority of the businesses in Rwanda. Membership in the Chamber of Commerce is mandatory and there are membership dues and additional tax liabilities associated with becoming registered with the Chamber. Consequently, 62% of the small firms do not belong to associations. The Chamber of Commerce was rated as effective by only 48% of its members. This component will assist some of the fledgling associations which already provide support to a growing number of enterprises. Potential candidates for institutional support include DUTERIMBERE, a women's bank, KORA, an association which support artisans, and ARPI, a relatively new association formed to provide services to small entrepreneurs. Others will be identified during the Project Paper design phase as well as during project implementation.
- Specific support will be provided to the BANQUES POPULAIRES (BP), a local savings and credit cooperative, to develop alternative credit programs, such as minimalist credit, for rural enterprises. The MAPS study reported that over 90% of Rwandan firms received no external financing from either commercial banks or cooperative societies. (89% of small businesses surveyed resorted to using their personal funds, 30% received funding from family and friends and 21% from their suppliers. Support to the Bank Populaires would be in the form of technical assistance or equipment, as the bank has enough liquidity to finance additional loans. At this writing, agreement has not been reached with the Bank Populaires on a minimalist credit program. However, the Mission will continue to explore the possibilities in this area. (A description of how minimalist credit programs work is included in Annex II of this PID).

- Training/study tours for local private sector support institution leaders and entrepreneurs. This may include trips to Nairobi to the African Development Project Facility, as well as visits to successful enterprise development project in other countries.
- The provision of TA to identify and develop appropriate technologies, and to advise entrepreneurs on the improvement of production processes, as needed. The focus here will be on those MSMEs which show promise in the development of the Rwandan economy and the private sector.
- Funding will also be provided for focussed research on specific issues relative to project concerns. This may include research on informal sector enterprises and informal credit operations in Rwanda, using a sub-sector analysis approach. The effects of macro-economic policies and the regulatory environment on informal enterprises may also be a possible research area. Buy-ins to the GEMINI and IRIS projects will be considered.

III. FACTORS AFFECTING PROJECT SELECTION AND FURTHER DEVELOPMENT

A. Social Considerations

(i) Socio-cultural context

A number of conditions exist in Rwanda which make it a unique social environment. It has the highest population density and one of the smallest geographical areas of Africa. Rather than live in villages and towns, the Rwandan farmer lives in a diffused pattern throughout the country. Less than 5% of the population live in urban areas. The only real urban area is Kigali, the capital city, with 182,000 inhabitants. The other 12 "urban" areas are really small towns with populations varying between 4,000 and 28,000. The population density interacts with the dominant topographical feature of Rwanda, its mountain terrain, to create farms located on steep hillsides with the attendant problem of soil erosion. It is a landlocked country more than 1000 miles from the nearest port. Its location in the interior of Africa was responsible for its relatively late entry, historically, into regional trade and commerce. Furthermore, its remoteness also contributed to a long history of feudalism reaching into the twentieth century.

The principal ethnic groups are the Tutsi and Hutu tribes, accounting for 9.8% and 89.8% of the population, respectively (the remaining .4% consists of the Twa). The migration of the Tutsi into what is now Rwanda could be considered an historical accident which created the feudalistic state which existed for so long where the Tutsi minority governed the Hutu majority. The change in the societal structure which occurred at the time of independence in 1962, when the Hutu majority took control of the government, has implications for development programs even until today.

The level of education in Rwanda is relatively low. The illiteracy rate in 1984 was 57.4% for those aged seven and above. In 1978 the illiteracy rate for men was 47.4% and for women 66.9%. A third of the urban population is illiterate whereas one half of the rural population cannot read or write. The principal language is Kinyarwanda and is spoken by virtually the entire

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population. French is the second official language and is spoken by approximately 20% of the population. This has implications for training programs and reflects the need to increase the availability of project assistance in Kinyarwanda.

Finally, although the government has supported equal rights for women in various areas, the status of women in Rwandan society remains subordinated to men. Social practice lags far behind legislation and a certain aspect of this subordination are still reflected in business practices and law. Some aspects that impact upon this project are the following:

- A woman does not inherit, either in her father's family or that of her husband.
- A woman needs her husband's authorization to open a bank account. She cannot demand a credit on her own, rarely having the guarantee by virtue of her financial dependency on men.
- A woman cannot buy land without her husband's authorization.

(ii) Project Beneficiaries

The target beneficiaries of this project will be both formal and informal, rural MSMEs, women, and cooperatives.

"Informal" MSMEs refer to the extensive enterprises operating in Rwanda which are not registered with the government. "Informal" cooperatives also exist and will be targeted for project activities. In most countries in the developing world, informal sector activity accounts today for much of the activities in the non-agricultural productive sector. In the past, many governments looked upon informal enterprises as "illegal" enterprises which were tolerated, but not viewed as deserving of support. As a result of the depression of the formal "modern" sector in many developing countries and the recognition that the informal sector provides much of the employment in those countries, efforts have been designed to improve their operations. Although many of these informal enterprises will remain very small scale, due to many economic and social factors, the ultimate aim of these efforts is to find ways to incorporate them, as much as possible, into the "formal" or "modern" sector.

It is difficult to specifically define a Rwandan micro-enterprise. Attempts at definition have defied standardization, largely due to the characteristics of micro-enterprises and the variance of size and assets from country to country. Small and medium-sized enterprises have been easier since they have typically been part of the formal sector and quantifiable definitions such as number of employees or assets have been used. When one discusses micro-enterprises, a qualitative definition has proven to be more useful, e. g., very small enterprises operating informally within a country's economy, which manufacture products, provide services or trade in products which are principally consumed in local markets.

These entrepreneurial activities of the poor are conducted by persons who generally lack access to conventional sources of land, capital, fixed premises and business services. The project paper will specify a workable definition of micro, small and medium-sized enterprises, which will be applicable to the Rwandan context.

It is important to note that the support necessary for informal micro and small enterprises (and cooperatives) is considerably different from that necessary for formal, small and medium-sized enterprises. Consequently, specific measures will be taken by the project to formulate appropriate types of assistance for enterprises according to their size, composition, activities, and integration into the formal economy.

The principal focus of this project will be to work with informal, micro and small enterprises since they are the most numerous and represent the "breeding ground" for future formal, small and medium-size entrepreneurs. However, the project will also provide limited assistance to small and medium-sized formal enterprises which are serving key market niches, to assist them to improve the quality of their products and to improve their productivity.

It is also recognized that a substantial portion of micro-enterprises are operated by women, particularly in commercial and trading activities. Therefore, one of the best ways to address women's needs in society is through support to informal micro-enterprises. This project will seek to identify the best means to address women's needs in this sector and design programs to support their activities.

In defining "rural", this project considers all activities which will benefit MSMEs outside Kigali to fall within its purview. Since the economy of Rwanda is overwhelmingly agricultural, the project will emphasize development of the agro-industrial sector as well as private sector, economic activities which benefit rural residents.

(iii) Participation

Rwandans appear to have an affinity to working together in groups of various types. This is reflected in the relative success of cooperatives in Rwanda, as compared to other countries where the cooperative movement has become an arm of government to implement government policies. The "Banques Populaires" is the largest cooperative and appears to be functioning quite well. It is a savings and credit cooperative (credit union) which has over 100 branches throughout the country. Likewise, IWACU (meaning "our house" in Kinyarwanda) operates a training center and provides various services for cooperatives throughout the country. There are also numerous "ibiminas" (revolving credit clubs) throughout the country as well and the "Banques Populaires" has been experimenting with ways to incorporate them into their overall savings and credit strategy.

Individual entrepreneurs have not had the same success and this is reflected by the lack of private institutions providing services to them. Government control of the private sector is considered to be a major factor in the under development of this aspect of the economy. There are some fledging groups operating in this sector, many of them organized under the auspices of foreign NGO's with programs in Rwanda.

Women have had little representation in either cooperative or MSME forums over the years. DUTERIMBERE, an NGO organized in 1987 with the assistance of Women's World Banking, currently has over 25 organizational members and 345 individual members. Its objective is to integrate women into national development and its principal activity is to provide access to credit for women, especially for enterprise development.

It is anticipated that IWACU and "Banques Populaires" will be involved in the design of the Rural Enterprise Development Project (REDP). DUTERIMBERE will also be consulted to determine the best means to address equal access to project benefits by women and possible ways to support its program. Other NGO's which are actively promoting either informal and formal enterprises, and women's participation in them, will be consulted as well. The proposal by IWACU to implement cooperative development for the REDP is expected to involve consultation with member cooperatives as well as to include a program for promoting women's cooperatives. It is further expected that the work of the MSME Development Advisor will spend time consulting with commune officials and local groups throughout the country during project implementation, to develop indigenous institutions to support MSME development.

(iv) Socio-Cultural Feasibility

The REDP should be feasible within the socio-cultural context of Rwanda. Past USAID experience with cooperatives and the "Banques Populaires" have demonstrated the feasibility of assisting cooperative development. While the development of MSMEs in the past has been difficult, it has been largely due to government intervention in this area rather than a socio-cultural resistance. In fact, most Rwandans are employed in the private sector and this project seeks to build upon that fact. Regarding women, some socio-cultural factors will discourage the development of women-run enterprises. However, the need to include participation by women in project benefits is felt to outweigh the difficulties in implementing this particular aspect of the project.

(v) Impact

It is expected that this project will directly impact upon thousands of Rwandans, both male and female, living in rural areas, through the provision of technical assistance, training and access to credit of numerous cooperatives and individual enterprises. Furthermore, the project will develop IWACU in its role as an indigenous, self-sustaining institution, which can carry on with its activities after the end of the project. It will be more difficult to implement the institution-building aspect of MSME development, since no indigenous institution currently exists which is prepared to complement the role of IWACU in dealing with individual entrepreneurs. However, it is anticipated that the MSME Development Advisor will assist in identifying and helping potential indigenous institutions which may develop into effective support institutions for MSMEs.

B. Financial and Economic Considerations

During recent years, Rwanda's economic situation has continued to deteriorate due to a drop in coffee prices. In 1988, under the combined impact of weak international coffee prices and a steadily appreciating currency, the Rwandan economy contracted, with GDP declining by two percent, and the trade deficit widened by about six percent, to over \$160 million. Foreign exchange holdings were drawn down to finance imports, and fell by about 30 percent. The budget deficit is approximately \$108 million and the external debt service ratio remains virtually unchanged at about 14 percent of exports.

Rwanda's economic situation is further aggravated by: its over dependence on coffee (90% of export earnings); a seemingly unrestrained birth rate of 3.7%; and the many policy constraints, mentioned earlier, which inhibit economic growth. Today, growth in the Rwandan labor force far outstrips the economy's capacity to generate new jobs. The Ministry of Labor estimates, that of the 75,000 entrants to the labor force each year, fewer than 10 percent are able to find formal employment. Despite this abundance of unskilled workers, skilled and semi-skilled labor remains in short supply due to a chronic lack of technical and managerial training opportunities.

Faced with the economic crisis, the GOR has taken some steps to tighten its belt. For example, it has reduced subsidies to coffee growers, and has restricted many of the prerequisites of civil servants. More importantly, it has been forced to enter into structural adjustment talks with the World Bank and the IMF (which are continuing at this writing). Given the GOR's limitation of resources, all indications are that the principal source of future employment will be in the informal, micro and small enterprise and cooperative sector.

This project will support these growth areas in the economy through the targeting of technical assistance and training to develop the managerial and technical skills of these entrepreneurs. Previous project experience in these areas will permit better targeting of project assistance in the REDP and further institutionalize project benefits. The form of technical assistance delivery mechanism is being revised in the REDP in order to respond to lessons learned from previous projects. In addition, a focus on increased access to credit by informal enterprises through a local savings and credit cooperative will further extend project benefits.

Major project costs will involve technical assistance, by both local and expatriate advisors, and training, mainly local, but some abroad. Some limited commodities may be provided to support new technologies and improved institutional capabilities.

The PP design team will analyze the cost effectiveness of short-term versus long-term technical assistance to specific formal and medium-sized firms or cooperatives. The team will also assess the availability of local technical assistance for project interventions and determine the cost/benefit ratio per local enterprise for locally provided versus expatriate-provided assistance. It should also determine the potential financial sustainability of potential indigenous institutions which are providing services to MSMEs and cooperatives. Indirect benefits accruing to rural residents should be examined through a cost/benefit analysis.

C. Relevant Experience with Similar Projects

USAID began its current projects which deal with private sector development in Rwanda in the mid-1980's. At that time, three projects were initiated - The Private Enterprise Development Project (PED), the Cooperative Credit & Training Project (CCT), and the Policy Reform Initiatives in Manufacturing and Employment (PRIME) Program. Whereas, the design of the PED specified a broad array of activities dealing with both policy and programmatic issues, most of its actual work has been in the area of technical assistance (TA) to small &

medium scale enterprises, particularly for agricultural production. The CCT Project has succeeded in developing a local, indigenous institution, IWACU, which is capable of providing both training and technical services to its member cooperatives. The PRIME program has dealt mainly with policy reform issues and has provided local currency for a variety of private sector interventions.

A recent evaluation of the CCT Project was favorable. However, the evaluation for the PED Project while favorable, concluded that project activities were too scattered and made several recommendations to modify the Project. The Rural Enterprise Development Project will take the recommendations of each evaluation into consideration to better focus project activities.

The area of policy and regulatory reform in the private sector is currently under review by the government. There are indications that recent high level talks between the government and the World Bank may soon bring favorable changes in the GOR's policy environment. It is clear that devaluation of the Rwandan Franc is a necessary step toward economic recovery. The third tranche of the PRIME funds has yet to be disbursed and may be contingent upon progress in the macro-economic environment. Although it is recognized that the macro-economic and regulatory issues must be addressed as a part of an overall strategy for the development of the private sector in Rwanda, the REDP will restrict itself to institutional development, to project interventions such as credit, technical assistance and training, and to research and development. The macro-economic and regulatory reform issues will be addressed by the remaining activities of PRIME and a possible follow-on project.

D. Project Implementation

USAID will work closely with the GOR and with all participants in the project to ensure that the project is well coordinated and executed. In this regard, USAID proposes that the project will be managed in the following manner:

Project Coordination: The project will create an office of project coordination to ensure the effective management of the project. The GOR will nominate an independent individual, suitable to AID, to be the Project Coordinator. The Coordinator will be supported by a MSME expert who will provide technical advice on all aspects of project implementation. Duties of the Project Coordinator and his advisor will include but not be limited to the following tasks:

- identify local and expatriate technical assistance to provide effective support to private enterprises and to local institutions supporting the private sector;
- collaborate with the Bank Populaires to develop alternative credit programs for private enterprises;
- arrange training/study tours for local private sector support institution leaders and entrepreneurs. This may include trips to visit successful enterprise development projects either abroad or locally; and

- arrange buy-ins to AID/W private sector projects. Possible cooperation with the Peace Corps and American PVOs operating in Rwanda will be examined during the PP design phase. American PVOs operating in Rwanda, include, CARE, TECHNOSERVE, CRS and AFRICARE.

Project Advisory Committee

A Rural Enterprise Development Project Advisory Committee will be established to provide direction to the Project. Members of the coordinating committee will include, primarily, representatives from the GOR, USAID and the Coordinator's Office. The GOR representatives might include, MINIMART, MIJEUMA, MINAFFET and MINIFIN. Other participants at the semi-annual project advisory committee meeting will be invited as necessary.

The Committee will serve as an important mechanism to keep USAID and the GOR informed of the progress of project activities. As envisioned, the Committee will be a resource for attainment of project objectives, and will not, as such, exercise control over the various institutions participating in the project. It will seek to strengthen complementarities among similar projects and it may suggest potential activities and institutions to develop. The committee will also serve to facilitate government approvals and private sector cooperation in project activities.

Relationship of Implementing Parties with USAID and the Government of Rwanda

The proposed project will fall under the supervision of the Ministry of Industry and Artisans and under the Ministry of Cooperatives. Since AID will sign a Cooperative Agreement with IWACU, it is not expected that the Project Coordinator will have to have daily contact with the Ministry of Cooperatives. However, the Coordinator will have to collaborate with MINIMART for activities relating to the development of micro, small, and medium enterprises to assure that project activities are consistent with government's policies. IWACU is an independent NGO, and will maintain relationships with MIJEUMA, as needed. Every attempt will be made to create an environment in which the REDP can operate as independently as possible, however in Rwanda all projects must have government oversight.

On the USAID side, the project will be managed by a senior, full time FSN Private Sector Manager. This individual works in the Project Development Office, and is supervised by the Project Development Officer, who has responsibility for all private sector activities.

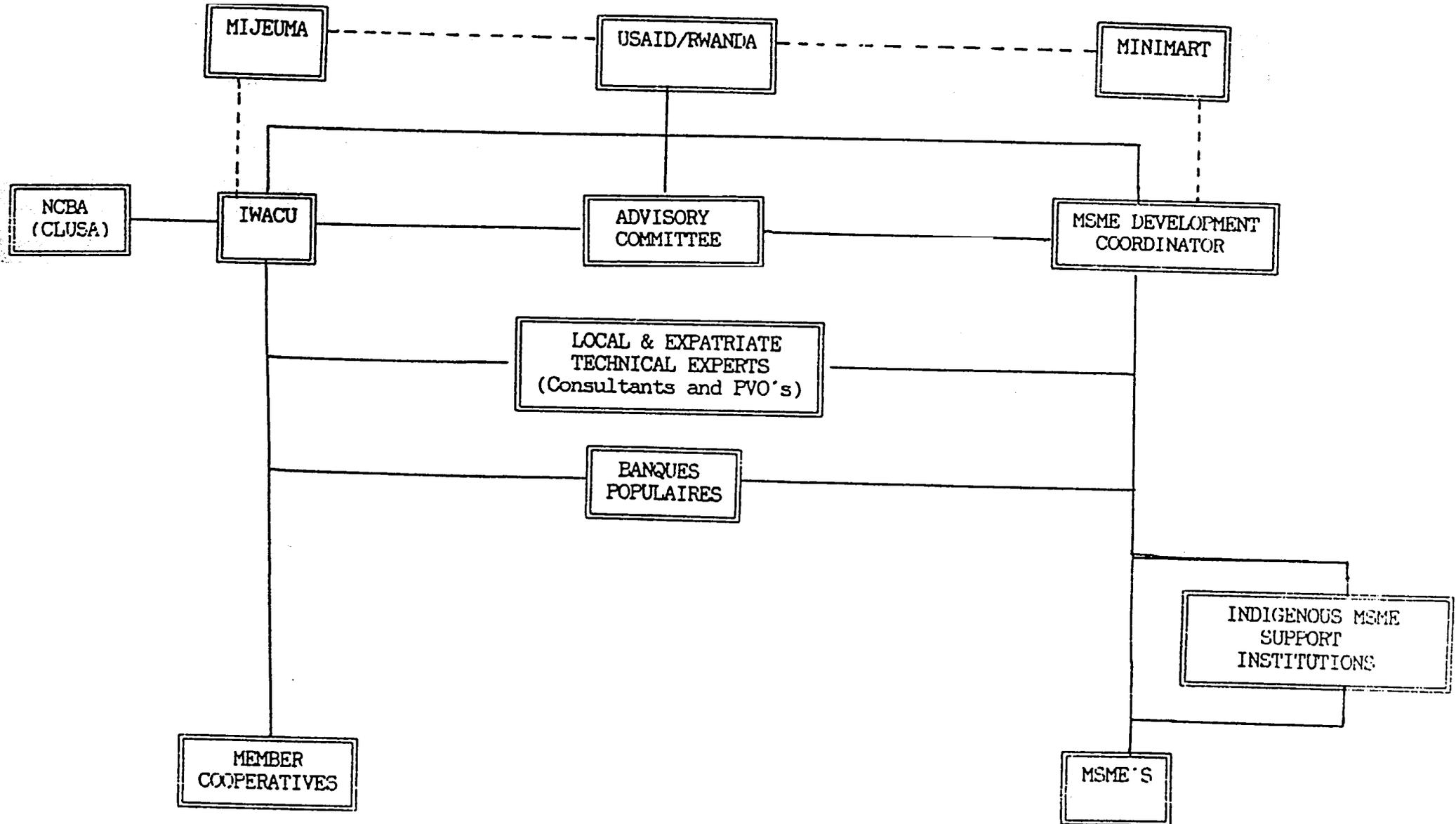
USAID will look to the Micro-Enterprise Advisor in the AFR/MDI Office of the Africa Bureau for assistance in the recruitment of qualified technical consultants, and on technical issues dealing with micro-enterprise development in the informal sector. Some buy-ins may also be possible through AFR/MDI ongoing programs in private sector development.

Organizational Relationships

The proposed organizational relationships among the key parties in this project are shown in the diagram on the next page.

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RURAL ENTERPRISE DEVELOPMENT PROJECT
ORGANIZATIONAL RELATIONSHIPS (ORGANIGRAM)



E. Estimated Costs and Methods of Financing

The costs for this project fall within four major areas:

- A Project Coordination Office, with a Local Project Coordinator and a Resident Expatriate Advisor and related costs;
- Short-term expatriate technical assistance and training for IWACU, "Banques Populaires" and indigenous MSME support institutions;
- Local and expatriate technical assistance and training programs for MSMEs and cooperatives; and
- Research and Development.

Since IWACU is a registered PVO, a cooperative agreement will be used for activities in cooperative development conducted and coordinated by IWACU. The MSME Development Advisor will be financed either through a personal services contract, a contract with a US consulting company, or through a Cooperative Agreement with a PVO.

IWACU will administer the funds available for cooperative development activities. The MSME Coordinator will administer the local cost budget for activities related to the MSME component. The contractor for the expatriate advisor may administer the dollar costs relating to TA, training and procurement. A final determination on the financial management of the MSME component will be made during the PP design.

Buy-ins for program support through AFR/MDI and through the GEMINI and IRIS projects will be examined during PP design.

An illustrative budget is presented below:

<u>PROJECT ACTIVITY</u>	<u>ESTIMATED COST</u>
<u>Cooperative Development Activities</u>	
- Technical assistance from NCBA (CLUSA)	\$ 300,000
- Technical assistance and support to "Banques Populaires"	300,000
- Technical assistance and local training programs for cooperatives	1,300,000
- Commodities (computers and other equipment)	150,000
- Training and study tours abroad	250,000
- Research & Development	200,000
Subtotal	<u>2,500,000</u>
<u>MSME Development Activities</u>	
- MSME Development Coordinator (incl. local staff & other support costs)	1,000,000
- Technical assistance and local training programs for MSMEs	1,000,000
- Technical assistance and training to indigenous MSME support institutions	500,000
- Training and study tours abroad	250,000
- Research & Development	200,000
Subtotal	<u>2,950,000</u>

<u>Contingencies</u>	250,000
<u>Audit, Evaluation & Training</u>	300,000
Total Project Costs	6,000,000 =====

F. Design Strategy

The Mission will request that IWACU prepare a project proposal consistent with this PID. This proposal shall be prepared prior to the PP design for inclusion in the PP.

If feasible, technical assistance will be provided by the Mission to the Union of "Banques Populaires" in advance of the PP design, to design a proposal for alternative credit programs to reach informal micro and small enterprises. This proposal could then be incorporated into the PP. If this is not feasible, the PP team will examine the potential of the inclusion of an alternative credit program in the project, through the "Banques Populaires".

The PP team will prepare a detailed scope of work and budget for the Rural Enterprise Advisor. It will also determine the potential source of technical assistance for the Project participants, including local, Rwandan institutions and American PVOs. The PP team will determine the potential for cooperation with other donors, local PVOs and the Peace Corps on this project. The access to project benefits by women will be fully investigated with a strategy designed to address their needs through project interventions.

The PP team will consist of the PDO as team leader, the A/PSO, 2 technical consultants in micro-enterprise development and the private sector, an economist, and a representative of the GOR. An additional local consultant with experience in small enterprise development may be hired. The AFR/MDI Office is expected to provide additional guidance on the PP.

Schedule for Design and Obligation:

PID Submission to AID/W	July 1990
PID Approval	July 1990
Pre-PP TA to IWACU & "Banques Populaires"	Aug - Sept 1990
PP Design	Oct/Nov 1990
PP Review	Dec 1990
PP Approval	Dec 1990
Draft Project Agreement	
Obligation	

G. Recommended Environmental Threshold

The project activities fall within classes of action for which an IEE is not generally required in accordance with HB3, App 2D 22 CFR Part 216, Section 216.2(C). The project as presently envisaged will consist of two components: the first is the Cooperative Development. Under this component USAID will provide funding directly to a local PVO - IWACU, which will undertake activities aiming at cooperative development. IEE is not generally required

for this component in accordance with Section 216.2(C)(xiii): matching, general support and institutional support grants provided to private voluntary organizations (PVOs) to assist in financing programs where AID's objective in providing financing does not require knowledge of, or control over the details of specific activities conducted by the PVO.

The second project component is the Micro, Small & Medium-sized Enterprise Development. Activities of this component will consist of TA, Training, and Research. These activities fall within two classes of action for which an IEE is not generally required. The first is Section 216.2(C)(i): education, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc - and this project will not); and the second is Section 216.2(C)(iii): analyses, studies, academic or research workshops and meetings.

Based on the above discussion, USAID believes that an IEE is not necessary.

H. AID Policy Issues

1. One of the major AID/W concerns is whether this project can be successful in the current economic policy environment in Rwanda. The MAPS team, for example, identified a number of macro level policy constraints which were considered unfavorable to private sector development. These constraints included: exchange rate policy; protectionism and import substitution bias; price controls; taxation policy; and business registration procedures. The Mission agrees that these policies are not conducive to private sector development and further agrees that Rwanda would be better off if most of these policies were abolished. Indeed, the Mission is working through its PRIME project to alleviate some of these constraints.

However, the major focus of the Rural Enterprise Development Project is micro and small scale enterprises and cooperatives. Many of our studies have concluded that the spirit of enterprise and entrepreneurship, and basic business skills are very poorly developed in Rwanda. This project will try to remedy this weakness. As was pointed out earlier, many of these enterprises are informal i.e., unregistered, and are not subject to many of the government policies which limit expansion of the formal sector. In fact, many of these informal enterprises thrive in a restrictive environment. The Mission believes that by concentrating on business skill development, entrepreneurship, and by helping existing entrepreneurs to have greater access to credit, that this project will help to solve a fundamental problem, while avoiding many of the policy issues which hinder the larger formal firms. In addition, we are building on our successful experience in implementing two similar private sector projects thus increasing the likelihood of success.

2. This project will address the Congressional earmarking of funds for credit programs which give access to formal credit to micro-enterprises. The proposed alternative credit program to be developed with the "Banques Populaires" could meet the goals of those earmarked funds.

3. This project is also consistent with the AID/Washington focus on developing micro-enterprises and the Mission will seek to leverage its efforts through buy-ins to programs such as those offered by AFR/MDI on private sector development and research on micro-enterprises and the informal sector through the GEMINI program.

Finally, Mission concerns with the need to provide alternatives to agricultural employment in rural areas is directly addressed by this project. This project deals with one of the principal economic needs of Rwanda and its success could provide a model for other African countries struggling with similar economic problems.

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ANNEX A

LOGICAL FRAMEWORK

<u>Program Goal:</u>	<u>Measures of Goal Achievement:</u>	<u>Means of Verification:</u>	<u>Assumption:</u>
To increase rural employment and income generation activities in Rwanda.			
<u>Project purpose:</u>	<u>End of Project Status:</u>	<u>Means of Verification:</u>	<u>Assumption</u>
1. To improve operational and productive capabilities of rural MSMEs and cooperatives.	1.1 increased number of trained personnel. 1.2 increased production. 1.3 improved quality of products. 1.4 increased linkages between informal micro and small enterprises and formal sector businesses.	Sample of enterprises receiving project interventions surveyed both before and after receiving interventions.	Socio-economic environment remains stable.
2. To improve access to credit for rural MSMEs and cooperatives.	2.1 increased numbers of loans applications and loans approved for rural MSMEs and cooperatives.	Records kept of loan applications and approval by IWACU and the BP.	BP supports the project.
3. To develop the capability of private, indigenous NGOs to respond to the demands of rural enterprises and cooperatives for credit, goods and services.	3.1 increased number of local, indigenous NGOs providing services to rural MSMEs and cooperatives. 3.2 increased services or programs offered by private indigenous institutions to rural MSMEs and cooperatives. 3.3 increased capabilities and sustainability of local institutions offering services to rural MSMEs and cooperatives.	Surveys performed by Rural MSME Development Coordinator both at start of project implementation and on a periodic basis. Ratings of local institutions by Rural MSME Development Coordinator on periodic basis.	Indigenous NGOs seek the project assistance and training.

Project Outputs:

Magnitude of Outputs:

Means of Verification:

Assumptions:

1. Entrepreneurs trained in production, finance, and management

2. Selected for institutional support, local NGOs which provide services to MSMEs

3. Developed alternative credit programs for MSMEs.

4. Entrepreneurs and local institution leaders undertook study tours.

5. Developed technological packages for improvement of production processes.

6. Research carried out on specific issues related to the project concern.

7. Cooperatives received IWACU type of services

Semi-annual reports submitted by the MSME's Coordinator

Semi-annual reports submitted by IWACU Coordinator

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<u>Project Inputs:</u>	<u>Implementation Target (Quantity):</u>
<u>Cooperative Development Activities</u>	
- Technical assistance from NCBA	\$ 300,000
- Technical assistance and support to "Banques Populaires"	300,000
- Technical assistance and local training programs for cooperatives	1,300,000
- Commodities (computers and other equipment)	150,000
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Subtotal	2,500,000
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- MSME Development Coordinator (incl. local staff & other support costs)	1,000,000
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- Training and study tours abroad	250,000
- Research & Development	<u>200,000</u>
Subtotal	2,950,000
<u>Contingencies</u>	250,000
<u>Audit, Evaluation and Training</u>	300,000
TOTAL	6,000,000 *****