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## THOUGHT LEADER

# Small business is the backbone of Rwanda's economic journey

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*Firms working together in a cluster are better able to respond to the challenges of the global market.*

Rwanda's economy has grown at a rate of more than 7% a year since the horrors of the genocide against the Tutsi in 1994. Driving Rwanda's economic growth are our small and medium-sized enterprises (SMEs). Today, SMEs account for about 98% of businesses and 41% of private sector employment.

This is not accidental. In its Vision 2020 development plan, the Rwandan government said growth would be achieved if all stakeholders – development partners, private sector and government – played their part in strengthening SMEs. We understood that SMEs, both formal and informal, would play a crucial role in lowering Rwanda's trade imbalance and generating off-farm employment.

### Strategy based on clustering

When SMEs work collaboratively within a cluster, they have new market opportunities and share the cost of certification and monitoring. We have found that this reduces costs and increases learning. Clusters engender collective action, dialogue, trust, knowledge sharing and capacity building. Clusters are also a useful entry point for stakeholders, including the government, seeking to support private sector development. Firms working together in a cluster are better able to respond to the challenges of the global market.

Local SMEs face a myriad of challenges. These range from difficulty accessing affordable credit, management weaknesses and lack of access to regional and international markets.

At the Rwandan Development Board (RDB), we support local SMEs in four main ways: facilitating standards certification; promoting market linkages; facilitating access to finance; and promoting skills development and technology transfer.

Over the past five years, we have assisted 44 local agroprocessing SMEs to obtain S-Mark certification. By sharing 50% of the cost of obtaining the S-Mark with local SMEs, RDB has supported local cheese, yogurt and juice manufacturers to access regional and international markets as well as the local market.

Over the last two years, we have assisted 259 SMEs to participate in local international exhibitions and trade fairs and promote their products in regional and overseas markets including China, Germany, Kenya, Italy, Tanzania, and the United Kingdom. In addition to purchasing exhibition stands, RDB connected the SMEs with potential international buyers.

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Regarding access to finance, over the past two years we have linked 127 SMEs to financial institutions, from which they have received seed capital of \$10,000 each. Furthermore, through the Business Development Fund, Rwandan SMEs have accessed loan guarantees of up to 70%.

In partnership with the International Trade Centre (ITC), we trained 50 local textile professionals, provided business advisory services to 198 SMEs in agribusiness and manufacturing in collaboration with the Business Development Center and trained 22 meat processors in standard compliance in partnership with the Rwanda Standards Board.

Following the partnership with Alibaba, we have linked a number of coffee and handicrafts businesses to the Chinese market. Consequently, three SMEs secured buyers and are currently exporting their products to China. Today, SMEs in the coffee business are receiving up to \$12 a kilogram for their coffee, up from the \$8 that they earned previously selling to the European and American markets.

Finally, through its pro-business reforms, Rwanda has reduced the overall cost of doing business. Rwanda now ranks 29th in the World Bank Doing Business Index, up from 41st a year earlier. In 2018, Rwanda instituted more than 20 reforms, ranging from reducing the time needed to file taxes to cutting the cost of construction permits. SMEs have been the largest beneficiaries of these changes.

### **Despite progress, further effort is needed**

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There is a need to harmonize efforts aimed at promoting SMEs in the region, as regional trade is significant in the drive by individual countries to accelerate the development of the SME sector. While various African countries have SMEs support initiatives, it is time to create an African umbrella body for SMEs.

This body would help ease access to markets and finance, as well as ensure collaboration in innovation and technology. As the African Continental Free Trade Agreement takes effect, such an umbrella body would help raise the capacity of African SMEs and contribute to achieving the trade accord's goal of deepening intra-Africa trade.

Finally, as governments, we need to adopt innovative approaches rather than relying on those that have failed to work. If we have tried certain things for many years and they are not succeeding, why can't we look at other ways? In Rwanda we realize the need to keep innovating and thinking outside the box. That is the only way to enable SMEs to thrive.