

# GUIDELINES ON PROJECT TO SUPPORT MICRO LEASING FOR MICRO AND SMALL ENTERPRISES FOR TVET GRADUATES

## Contents

<b>Background</b> .....	2
<b>Micro Leasing Facility under National Skills Development and Employment Promotion Strategy</b> ...	2
<b>1. Objectives of Micro leasing loan facility</b> .....	2
<b>2. Operational flow of the facility</b> .....	3
<b>3. Eligibility Criteria</b> .....	5
<b>4. Financing mechanisms</b> .....	6
<b>5. Selection of potential suppliers of equipment to be leased</b> .....	7
<b>6. Institutional framework in the implementation of Micro Leasing facility</b> .....	7
<b>6.1 Responsibilities of different institutions</b> .....	7
<b>6.1.1 Ministry of Trade and Industry (MINICOM)</b> .....	7
<b>6.1.2 Business Development Fund (BDF)</b> .....	7
<b>6.1.3 Ministry of Public Service and Labour (MIFOTRA)</b> .....	8
<b>6.1.4 Rwanda Development Board (RDB)</b> .....	8
<b>6.1.5 Private Sector Federation (PSF)</b> .....	9
<b>6.1.6 Districts</b> .....	9
<b>6.1.7 MIGEPPROF and affiliated agencies, MYCULTURE and affiliated agencies, National Council of Persons with Disabilities (NCPD)</b> .....	9
<b>6.1.7 National Rehabilitation Service (NRS)</b> .....	10
<b>6.1.8 Rwanda Cooperative Agency (RCA)</b> .....	10
<b>6.1.9 Rwanda Polytechnic</b> .....	10
<b>6.1.10 National Industrial Research and Development Agency</b> .....	10

## **Background**

In 2014, the Government of Rwanda initiated the National Employment Program (NEP) to promote self-employment and job creation among youth, women and people with disabilities. Given that the NEP had 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 startup toolkit/equipment was rolled in all districts to facilitate self-employment for graduates from TVET, short term vocational training and apprentices. Under that program, youth trained in different vocational fields, with great potentials in terms of profitability and market availability in their respective location were supported to have start up toolkit/equipment subsidized loans through financial institutions (SACCOs).

However, despite the number of Micro and Small projects supported in accessing start-up toolkits and vulnerable groups supported to access seed capital, field evaluations highlighted that the business projects supported were mainly at ideation phase and in micro survival projects with limited chance to start & sustain, expand and with a high attrition rate.

The Skills Development & Employment Promotion Strategy (NEP/NSDEPS) approved by the Cabinet in June 2019 has been developed based on challenges and success registered during five years of NEP implementation. The Strategy is mainly focusing on strengthening and sustaining MSMEs to create more jobs and skills development to embrace technology and innovation in the economy.

It is in this regard that the new strategy under pillar two of Employment Promotion will strengthen the existing Micro and Small businesses for TVET graduates and other special groups with micro leased equipment to unlock their growth potential. This intervention will replace the start-up toolkit scheme with now major focus on youth, women and people with disabilities with already existing products on the market and with a potential to grow and employ others.

### **Micro Leasing Facility under National Skills Development and Employment Promotion Strategy**

#### **1. Objectives of Micro leasing loan facility**

**The purpose of the facility is to:**

- ✓ Create new jobs and sustain jobs through facilitating MSMEs to access micro-leasing to boost the production capacity of their business operations;
- ✓ Upgrading the quality of the products and contribute effectively to Made in Rwanda Strategy;
- ✓ Overcoming equipment financing barriers and;
- ✓ Reduce infant mortality rate among Micro and Small enterprises.

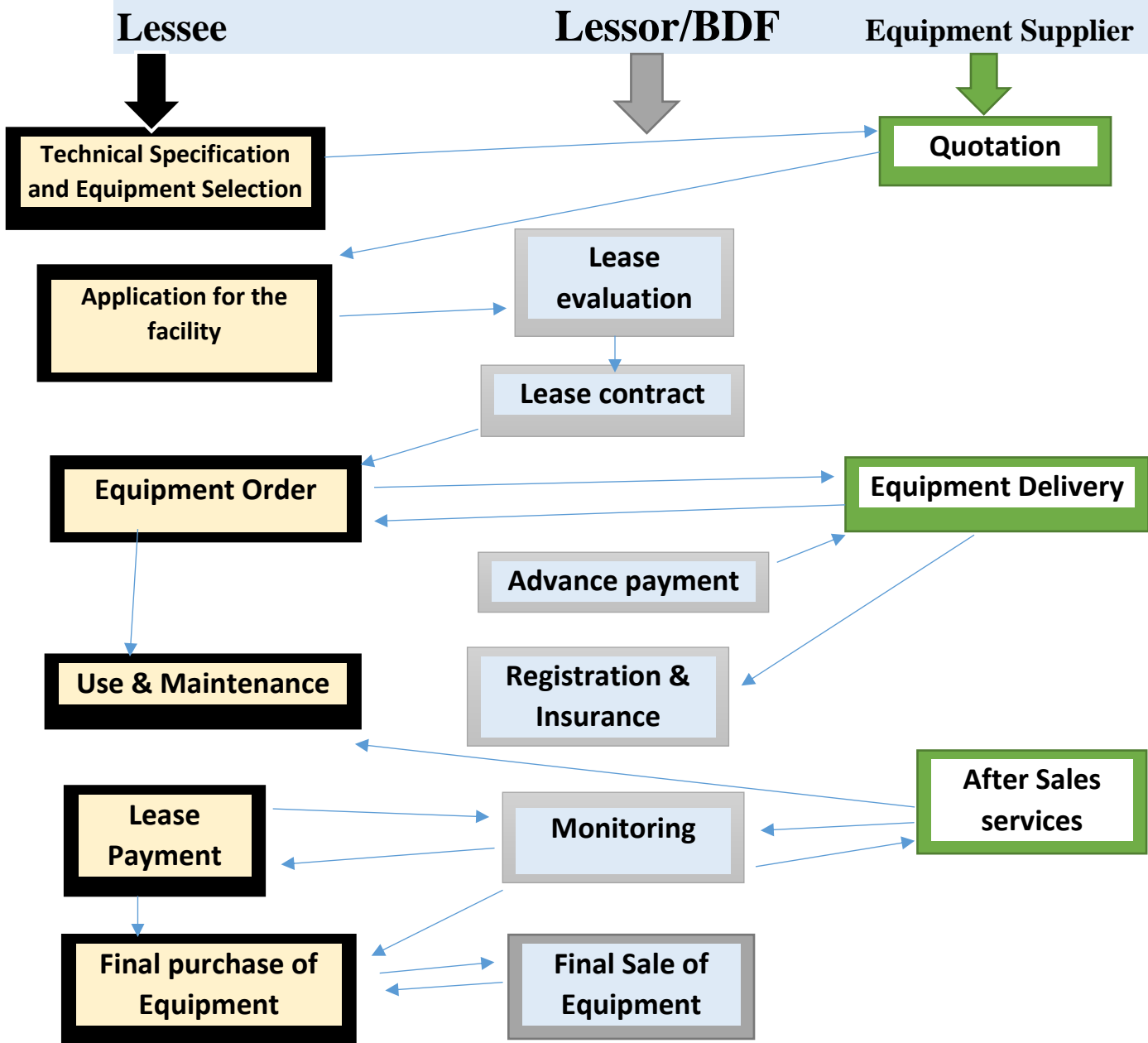
## **2. Operational flow of the facility**

In a standard lease operation, the lessee goes to an equipment supplier, chooses the needed equipment and negotiates the price and terms of delivery. Then, rather than approach a bank for a loan, the lessee approaches a lessor. The lessor evaluates the lease application, and if it is approved, the two parties sign a lease contract. The lessor purchases the equipment from the supplier and leases it to the lessee for a period that is usually close to the estimated economic life of the asset. During this period (the lease term), the lessee uses the equipment and makes regular payments to the lessor. In many cases, the lessee has the option to own the equipment at the end of the lease term.

Under the National Skills Development and Employment Promotion Strategy, the micro leasing facility will be delivered by Business Development Fund through its branches across the country and this is because BDF has ample experience in implementing the lease product but also considering the fact that BDF has decentralized its service across all the 30 Districts, this gives a sounding reason for BDF to be in a pole position to deliver the micro leasing product.

This section elaborates different steps through which a sole proprietor, company or cooperative can lease equipment so as to facilitate growth and expansion of the business. The delivery process of the facility shall include steps from the start to the time the lessee finally owns the equipment, below is a chart elaborating the steps to be followed in implementing the facility.

## Operation framework of Micro Leasing for Small & Micro Enterprise



The Lessee (client) is responsible for identifying the equipment she/he needs, develop equipment specifications (can be supported with expertise if requested) and identify who will supply from the list of supplier provided by the competent authority. BDF shall have to sign an MoU with each and every supplier on the list of approved suppliers.

The identified supplier upon reception of the request of identified equipment from the client, shall provide quotations of the equipment needed by the Lessee (client) not later than 24 hours without charging the lessee for the provision of the Quotations.

The Lessee shall submit his/her application of equipment to Business Development Fund (BDF Branch at the District level), the application will be accompanied by a business plan, certificate, diploma or Degree of the applicant acquired after completing Vocational and technical studies/training awarded by a recognized school/university and a business registration certificate (either company registration certificate or RCA certificate for the case of cooperatives).

The Lessor/BDF, shall undertake evaluation of the lease application from the Lessee within a realistic time frame after field verification of the business existence and potential and is obliged to provide feedback to the applicant on whether the application is rejected or approved.

For the approved applications, the contract will be negotiated between the Lessee (Lease applicant) and the Lessor (BDF) and the negotiations of the contract will be guided by the provisions in the approved micro leasing guiding document.

The supplier of equipment shall provide a minimum of 6 month guarantee on the supplied equipment and during this period, any defect on the supplied equipment shall be handled and fixed by the supplier (After sale services), failure to do so, the supplier shall be requested to replace the equipment or pay back the cost of the equipment to BDF.

The lessee will be responsible for maintaining the equipment in good condition. The lessee will be trained on proper use of the machine/equipment whenever possible.

The Lessee shall be obliged to pay the lease payment installments as elaborated in the contract and failure to comply, BDF shall apply measures as provided in the contract between lessor and the Lessee. BDF reserves the right to terminate the contract in case the lessee fails to honor obligations.

### **3. Eligibility Criteria**

The Micro leasing facility is established to facilitate start-ups and growing micro and small enterprises access modern equipment to improve their business productivity. As a business development product, below are the scheme eligibility criteria that have to be fulfilled;

- a.** For a company owned by individual or with shareholding and cooperative to benefit from the micro leasing facility, they shall be in existence, operating and having products on the market for at least a period of one year. Any exception to these criteria will be approved NEP/NSDEPS competent organs (e.g. Youth in road maintenance projects were approved by Steering Committee);
- b.** For one to benefit from the Micro leasing facility, he/she must have graduated in vocational and technical studies/training and this shall be justified by possession of a certificate, Diploma or Degree awarded by a competent and recognized school/university or any other special group approved by NEP/NSDEPS competent organs (e.g. Youth in road maintenance projects were approved by Steering Committee);

- c. A cooperative must also full fill the criteria on bullet (b) though it can have 50% of members who are non-graduates of vocational and technical studies/ trainings;
- d. The applicant of the micro leasing facility must have not exceeded 7 years after he/she graduated from vocational and technical studies/training, this will be justified by the graduation date on the certificate, diploma or degree presented;
- e. The priority will be given to beneficiaries who are accessing the first time NEP/NSDEPS-access to capital products and those who will have performed successfully their obligations on previously accessed products.

#### **4. Financing mechanisms**

The scheme shall be managed and implemented by the Business Development Fund, and for it to be effective, the following are the financing mechanisms of operationalizing the facility:

- The ceiling of the facility shall be up to 10,000,000 frw for cooperatives and companies by shareholding. One can request below ten million depending on the size of the business plan and for the case of a sole proprietor owned business, the ceiling shall be up to 5,000,000frw;
- The interest rate on the micro leasing facility shall be at 12% and the lessor (BDF) shall provide a grace period of 3 months with deferred interest rate;
- The loan payment period shall not exceed 3 years (36 months);
- In order to facilitate the beneficiaries of this facility to build and make their business strong and growing, a performance based grant of 25% shall be provided from the start and failure to honor the payment of the lease, the lessee shall be deprived off the right to benefit from the grant;
- After the lessee and the lessor conclude the signing of the contract, the lessee shall be requested to do a down payment of 5% of the equipment cost to the lessor (BDF) to ensure the ownership and commitment, and this will act as an own contribution. After BDF has received the down payment, BDF will submit an equipment order to the supplier who will be obliged to supply equipment to the lessee in the agreed upon time frame. The lessor (BDF), shall be responsible of registering the equipment and insure them.
- A working capital not exceeding 15% of the value of the leased equipment can be provided only if the Lessee needs and applies for it and approved by the lessor. The working capital will not be part of the ceiling of the equipment;
- Administrative fee of 1% (VAT Exclusive) shall be charged from the Lessee by the Lessor/BDF.

## **5. Selection of potential suppliers of equipment to be leased**

An open call for manifestation of interest will be issued by BDF and preselected companies will be requested to submit full proposals. A joint committee chaired by MINICOM composed with MIFOTRA, PSF, BDF, RP, NIRDA and RDB will review the proposals and will approve a list of suppliers for a period of 2 years.

## **6. Institutional framework in the implementation of Micro Leasing facility**

The main Institutions in the operationalization of micro leasing are MINICOM, BDF, MIFOTRA and RDB, while other players include MYCULTURE and its affiliated agencies, MIGEPROF and its affiliated agencies, RCA, NCPD, NRS, RP, NIRDA, PSF and Districts.

### **6.1 Responsibilities of different institutions**

#### **6.1.1 Ministry of Trade and Industry (MINICOM)**

- Organize planning and budgeting sessions to prepare the annual action plan on the implementation of micro leasing;
- Organize coordination and review sessions on the implementation of micro leasing;
- Monitor and evaluate the implementation status of micro leasing;
- Allocate budget and provide micro leasing funds to BDF;
- Receive and quality assure reports on the implementation of micro leasing received from BDF.

#### **6.1.2 Business Development Fund (BDF)**

- Manage the micro leasing fund;
- Strengthen the capacity of BDF branches to manage this facility in respective districts;
- Receive and analyze micro leasing applications;
- Provide feedback to leasing applicants whether their applications were accepted or rejected;
- Provide feedback to applicants whether they have qualified for the micro leasing facility or not;
- Ensure that all micro leasing beneficiaries have registered and have been operating businesses for at least one year, unless there are special groups approved by NEP/NSDEPS competent authority;
- Sign contracts with eligible micro leasing facility beneficiaries;

- Launch open call for potential suppliers of equipment and organize verification and background check of bidders;
- Publish a list of potential suppliers of the identified equipment;
- Undertake quality check to make sure the lessee does not purchase sub-standard equipment or pay inflated price;
- Pay the identified required equipment to the supplier as per the contract with lessee;
- Establish a Management Information System or a database of micro leasing beneficiaries;
- Monitor and Evaluate the performance of businesses of micro leasing facility recovery processes;
- Report quarterly to MINICOM with copy to NEP/NSDEPS Coordination on the performance of Businesses of micro leasing facility beneficiaries, loan recovery processes and status on the utilization of the micro leasing revolving fund;
- Ensure services at every step in the implementation of micro leasing facility are delivered within the timeframe specified in the service charter (to be developed at BDF level).

### **6.1.3 Ministry of Public Service and Labour (MIFOTRA)**

- Oversee the implementation of the micro leasing facility in collaboration with RDB;
- Invite and chair NEP/NSDEPS Steering Committee to assess the progress of the implementation of micro leasing facility;
- In collaboration with RDB, report to NEP/NSDEPS Steering Committee the progress and subsequent changes to improve the operationalization of the scheme;
- Analyze consolidated reports, M&E reports on micro leasing in collaboration with implementing institutions;
- Play an advisory role in the operationalization of micro leasing facility.

### **6.1.4 Rwanda Development Board (RDB)**

- Coordinate resource mobilization to finance the Micro Leasing Facility;
- Organize coordination meetings in collaboration with MIFOTRA to assess the implementation of micro leasing;
- Monitor and evaluate the implementation of the micro leasing facility;
- Undertake independent assessment to understand the performance of the scheme;
- Quality assure the reports received from BDF and Districts;



- Produce a consolidated report on the implementation of micro leasing facility.
- In collaboration with MIFOTRA, present to NEP/NSDEPS Steering Committee the progress and subsequent changes to improve the operationalization of the scheme;
- Identification of emerging trades and related eligible equipment for micro leasing in collaboration with MIFOTRA, MINICOM, NIRDA, RP, PSF, and BDF.

#### **6.1.5 Private Sector Federation (PSF)**

- Support the selection of potential suppliers in collaboration with BDF, MINICOM, NIRDA, RP and RDB;
- Identification of trades and equipment eligible for micro leasing;
- Mobilization of potential beneficiaries in collaboration with decentralized entities and chambers and Districts;
- Identify mentors from established firms with experience in the same businesses and support young entrepreneurs benefiting from micro leasing to learn from them.

#### **6.1.6 Districts**

- Mobilize businesses owners to benefit from micro leasing facility;
- Monitor performances of businesses of micro leasing facility recipients and repayment processes in collaboration with BDF at District level;
- Organize access to finance fora in which items to discuss include, among others, the implementation progress of micro leasing facility;
- Mobilise stakeholders operating at district level to support the implementation of the scheme.

#### **6.1.7 MIGEPPROF and affiliated agencies, MYCULTURE and affiliated agencies, National Council of Persons with Disabilities (NCPD)**

- Mobilization and identification of projects for women, youth and entrepreneurs with disability who meet the criteria to benefit from the micro leasing loan facility;
- Identify implementation challenges;
- Produce and submit a quarterly mobilization report to the NEP/NSDEPS coordination.

### **6.1.7 National Rehabilitation Service (NRS)**

- Mobilization and identification of projects of graduates from training centers entrepreneurs who meet the criteria, to benefit from micro leasing facility;
- Produce and submit a quarterly mobilization report to the Employment coordination.

### **6.1.8 Rwanda Cooperative Agency (RCA)**

- Provide technical support in the registration of cooperatives;
- Organize capacity building sessions to cooperatives especially on cooperative management;
- Play an advisory role in the operationalization of micro leasing facility.

### **6.1.9 Rwanda Polytechnic**

- Support in technical specifications through IPRCs and technical schools;
- Support in training users of emerging leasing equipment in partnership with IPRCs;
- Support beneficiaries, especially TVET graduates with good projects to use Incubation facilities where possible;
- Awareness among the students on how to exploit this opportunity.

### **6.1.10 National Industrial Research and Development Agency**

- Support in selection of key trades that mostly need the micro leasing product;
- Through its knowledge management department with a database of technology suppliers, support in selection of suppliers of needed technologies;
- Support in preparation of technology/ machines technical specifications;
- Through its technical support department, support in technology management coaching to ensure optima capacity utilization;
- Support in encouraging technology replication by other non-supported players in the trade;
- Support in Monitoring and Evaluation of the Micro leasing impact in selected trades.

These guidelines are effective from the date of signature.

**Done at Kigali on 02/09/2020**

**RWANYINDO KAYIRANGWA Fanfan**

Minister of Public Service and Labour