THE LANDSCAPE FOR IMPACT INVESTING IN EAST AFRICA
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LIST OF COMMON TERMS AND ACRONYMS

AFD | Agence Française de Développement (French Development Agency)
AfDB | African Development Bank
BIF | Burundian Franc
BIO | Belgian Investment Company for Developing Countries
BoP | Base of the Pyramid
CEPGL | Communauté Économique des Pays des Grand Lacs (Economic Community of the Great Lakes Countries)
COMESA | The Common Market for Eastern and Southern Africa
CSR | Corporate Social Responsibility
DFI | Development Finance Institution
DFID | The Department for International Development (United Kingdom)
DRC | Democratic Republic of the Congo
EAC | East African Community
Early-stage business | Business that has begun operations but has most likely not begun commercial manufacture and sales
EIB | European Investment Bank
ESG | Environmental, Social, and Governance
ETB | Ethiopian Birr
FDI | Foreign Direct Investment
FMCG | Fast-Moving Consumer Goods
FMO | Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Netherlands Development Finance Company)
Focus countries | Countries under the study where non-DFI impact investors are most active in. Namely Ethiopia, Kenya, Rwanda, Tanzania, and Uganda
GDP | Gross Domestic Product
GEMS | Growth Enterprise Market Segment
GIIRS | Global Impact Investing Ratings System
GIZ | Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
Growth-stage business | Company has a functioning business model and its current focus is developing new products/services or expanding into new markets
HDI | Human Development Index
ICT | Information and Communication Technology
IFAD | International Fund for Agricultural Development
IFC | International Finance Corporation
IMF | International Monetary Fund
IRIS | Impact Investing and Reporting Standards
KES | Kenyan Shilling
LP | Limited Partner
Mature business | Profitable company with a developed and recognizable brand
MDG | Millennium Development Goal
MFI | Microfinance Institution
MSME | Micro, Small and Medium Enterprise
NGO | Non-Governmental Organization
Non-focus countries | Countries covered in the study but have limited non-DFI impact investor activity. Namely Burundi, Djibouti, Eritrea, Somalia, South Sudan, and Sudan
OFID | OPEC Fund for International Development
OPIC | Overseas Private Investment Corporation
PE | Private Equity
PPA | Power Purchasing Agreement
PPP | Purchasing Power Parity
PPP | Public-Private Partnership
PTA | Preferential Trade Area Bank
RDB | Rwanda Development Board
RFP | Request for Proposal
RWF | Rwandan Franc
SACCO | Savings and Credit Co-operative
SAGCOT | Southern Agricultural Corridor of Tanzania
SDG | Sudanese Pound
SGB | Small and Growing Business
SME | Small and Medium-Sized Enterprises
SOE | State-Owned Enterprises
SOS | Somali Shilling
SSP | South Sudanese Pound
TA | Technical Assistance
TIC | Tanzania Investment Centre
TZS | Tanzanian Shilling
UGX | Ugandan Shilling
UN DESA | United Nations - Department of Economic and Social Affairs
UNCTAD | United Nation’s Conference on Trade and Development
USAID | The United States Agency for International Development
VAT | Value-Added Tax
VC | Venture Capital
Venture-stage business | Sales have begun but cannot sustain the company’s operations. The business model is still being aligned with the realities on the ground
WASH | Water, Sanitation, and Hygiene
WHO | World Health Organization
RWANDA

SMALL MARKET, PROMISING REGIONAL EXPORTS
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INTRODUCTION

Rwanda has experienced an impressive era of rapid economic growth. Its Asian Tiger-like model of state-led development helped the nation recover quickly from one of the most horrific chapters in recent African history, and set Rwanda on course for two decades of unprecedented growth and modernization. Starting in the early 2000s, international donors began to view bilateral aid to the Rwandan government—untied to any specific program or purpose—as one of the best deals in development. However, relations with foreign governments and investors weakened after a 2012 United Nations (UN) report accused key Rwandan government figures of supporting rebel forces in the Democratic Republic of the Congo (DRC), further destabilizing one of Africa’s most volatile regions. International aid flows—which made up around 40% of the Rwandan government’s budget—diminished in response to the UN report; in the future, these flows will depend on Rwanda’s ability to convince donors that it has not played a role in regional political and ethnic issues. Nonetheless, many consider Rwanda to have the most efficient and least corrupt government in East Africa, with the strongest rule of law.

Impact investors have responded to Rwanda’s relatively favorable business environment. Although Rwanda’s small population and young markets have restrained deal flow to date, most investors active in East Africa list Rwanda as one of their target countries. The Rwandan government has made a point of creating a business environment friendly to foreign and local entrepreneurs that increasingly look to establish headquarters in its capital city, Kigali.

Allegations over Rwanda’s relations with paramilitary groups in the eastern DRC remain a concern for the country, as well as a threat to its future as a market for impact investing. Ethnic hostilities involving Rwanda are ongoing in the eastern DRC, and it is unclear when this situation will be fully resolved.

FIGURE 1: MAP OF RWANDA

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COUNTRY CONTEXT

Despite its turbulent past and recent UN allegations, Rwanda is today considered one of the most stable and promising economies in the region. This is reflected across economic indicators, though there is still substantial need to improve human development indicators and increase linkages between disadvantaged populations and the rapidly growing national economy.

Gross domestic product (GDP) in Rwanda has seen strong growth in recent years, averaging approximately 10% GDP (PPP) growth for the last eight years (see Figure 2). GDP currently stands at over USD 16 billion in PPP terms, and USD 7.4 billion in current prices, making it the smallest economy of this report’s focus countries and the second smallest economy—ahead of Burundi—in the East African Community (EAC) trade bloc.

Although GDP growth slowed from around 15% ten years ago to closer to 7% in 2013, Rwanda has seen some of the strongest growth in East Africa over the past decade, trailing only Ethiopia. This is partly due to increasing population—it is the most densely populated country in sub-Saharan Africa—but much of this growth is attributable to productivity gains. GDP per capita more than doubled over the last 10 years, overtaking Uganda for the first time in 2012.

The makeup of Rwanda’s economy has remained relatively stable over the last decade. Services account for the bulk of GDP, though booming telecommunications

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4 Focus countries for this report are Ethiopia, Kenya, Rwanda, Tanzania, and Uganda. Detailed chapters are provided for these countries, while brief overviews are provided for Burundi, Djibouti, Eritrea, Somalia, South Sudan, and Sudan.

and tourism sectors have increased this share from 48% to 53%, the highest in the region. Agriculture remains the single strongest sector, making up more than 30% of GDP. Substantial public and private investment in major construction and real estate projects have maintained the share of industry at just below 15%. Overall, Rwanda has one of the smallest manufacturing sectors relative to GDP in the region, ahead of only Ethiopia. Industrial sectors are likely to benefit from Rwanda’s strong push to expand power generation, in which the government plans to spend close to USD 5 billion to increase electrification from 20% today to 70% in 2017, adding 1,000 MW of generating capacity from hydro, methane gas, geothermal, and peat energy sources.6

**Foreign Direct Investment**

Strong GDP growth has been accompanied by increasing foreign direct investment (FDI) in Rwanda. In 2013, there was approximately USD 110 million in FDI inflows to Rwanda, up from only USD 8 million ten years ago (see Figure 3).7 Nevertheless, in absolute terms, Rwanda remains among the lowest recipients of foreign investment in East Africa, with FDI making up less than 1% of GDP in 2013.

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Mauritius, South Africa, and Luxembourg together originated more than 50% of all FDI into Rwanda in 2013 (Figure 4), predominately through equity vehicles (Figure 5).\(^8\) Kenya and Libya also provided a large share of FDI at a little below 10% each. Strong FDI inflows are expected in the future, particularly as Chinese loans begin to increasingly complement Western aid as a source of government funding.\(^9\)

\(^8\) Mauritius and Luxembourg constitute the largest and third largest sources of FDI into Rwanda. Despite these two countries’ relatively small size, they represent a large source of FDI because many private equity and venture capital funds base themselves in these jurisdictions to benefit from favorable tax regimes.

Inflation and Exchange Rates

Rwandan inflation has been volatile, dropping from 15% in 2008 to just 2% two years later, although inflation rates have stabilized since (Figure 6). Stable prices have resulted in a stable currency. Although the Rwandan Franc has steadily depreciated against the US dollar since 2006, depreciation has been uncommonly smooth and much less pronounced than that experienced by other EAC currencies. The Franc’s stability greatly benefits Rwanda’s investment climate, as it reduces foreign exchange risk.

![Figure 6: Inflation and USD/RWF Exchange Rate, 2004 - 2013](image)

Source: IMF World Bank Economic Indicators, Oanda Historical Currency Rates

While the Franc has remained more stable than other currencies, long-term political uncertainty has prompted some investors to seek hedging protection or implement exchange rate bounds for repayments in loan agreements. Please see the East Africa regional chapter of this report for additional detail on common investor approaches to mitigating currency risk.
SUPPLY OF IMPACT INVESTING CAPITAL

To date, non-DFI impact investors\(^\text{10}\) have made at least 38 investments in Rwanda, disbursing more than USD 44 million in capital, though this represents only 3% of all non-DFI impact investment activity in East Africa overall. Many investors would like to deploy capital in Rwanda: there are 94 active non-DFI impact investing vehicles managed by 69 investors that would consider investing in Rwanda, 17 of whom have already deployed capital. Currently there is less than USD 1 million in capital committed (but not yet deployed) by non-DFI impact investors to investments specifically in Rwanda. However, most of these investors take a regional approach; there is a further USD 1.8 billion in capital committed regionally that is available to be invested in Rwanda amongst other countries (Figure 7). While much of this is likely to be deployed in Kenya, Tanzania, or Uganda, some will also make its way to Rwanda.

\(^\text{10}\) Due to the unique nature and large size of development finance institutions (DFIs), the authors of this report analyzed their activity separately from those of other types of impact investors (“non-DFI”), and present this separate analysis when appropriate. See the Introduction and Methodology section of this report for more details.
Broader Investing Landscape

Despite strong growth in recent years, Rwanda’s banking sector remains small compared to those in some of the more financially developed economies in the region. In total, its banks hold close to USD 2.5 billion in assets, much less than banks in Kenya, which has a population four times greater but a banking sector over ten times larger. Similarly, Rwandan banks lent just under USD 1.4 billion in 2013, compared to USD 15 billion by banks in Kenya. As is true for the entire region, non-DFI impact investing represents a very small share of overall financial activity in Rwanda; bank loans in 2013 amounted to nearly 30 times the disbursements made by non-DFI impact investors over the same period.

Rwandan bank lending rates available to the private sector have been among the highest in the region over the past decade, consistently above 16% between 2004 and 2010. This is around four times higher than the average bank lending rate in the United States over the same period, which stood at just over 4%. IMF data is not available beyond 2010, but research and interviews conducted for this report suggest that rates have remained comparable since. These continuing high rates limit the practical availability of bank financing. This provides a market opportunity for private investors who are able to provide equity capital, cheaper debt options, or require less collateral for lending to both consumers and companies.

While impact investing represents a small portion of total investment activity, it fills an important gap in the market. As with commercial banks throughout the region, Rwandan banks remain extremely risk-averse and often require extremely high collateral ratios (please see East Africa chapter for more detail on access to commercial debt).

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Impact Capital Disbursed

Rwanda’s small market size is reflected in the amount of impact investment activity to date. Only around 3% of all non-DFI impact capital disbursed in East Africa has been placed in Rwanda, amounting to approximately USD 44 million (Figure 8), the lowest of this report’s five focus countries. A similar percentage of all direct investment by DFIs in the region has been placed in Rwanda, totaling a little over USD 370 million disbursed through 43 direct investments (Figure 8).

However, compared to other countries in the region, Rwanda’s openness to investors has led a large number of non-DFI impact investors to target Rwanda. Of 186 non-DFI impact investment vehicles active in East Africa, 94 are interested in investing in Rwanda, almost double the number targeting neighboring Burundi, which has a similar population. Ethiopia, with an economy more than ten times larger than Rwanda’s, is only targeted by 80 non-DFI impact investing vehicles. Nonetheless, the difference between the amount of capital available to Rwanda and the amount of capital actually disbursed is larger than in any other East African country.
Investments Over Time

One of the reasons for Rwanda’s low conversion rate on impact investments is the youth of its impact investing market. Impact investing is a recent phenomenon in the country, with the first investments by non-DFI impact investors starting in 2004 and significant growth in investments picking up in 2012, though it should be noted that the year of investment is unknown for a high proportion of deals (Figure 9).

![FIGURE 9: NON-DFI IMPACT INVESTMENTS BY YEAR](image)

Source: Open Capital Research

While non-DFI impact investments have increased in recent years, DFI direct investments have declined since 2010 (Figure 10). DFI activity dropped dramatically in 2012 as foreign governments began to distance themselves from Rwanda after UN allegations of political interference in the DRC. Notably, this did not appear to have deterred private investors. DFI direct investments rebounded in 2013 as diplomatic relations improved. The decline in 2014 is likely a result of incomplete data collected through Q3 2014. See the Introduction and Methodology chapter of this report for additional detail.

![FIGURE 10: DFI DIRECT INVESTMENTS BY YEAR](image)

Source: Open Capital Research
Of the sectors targeted by non-DFI impact investors, agriculture has received by far the most deals (65% of all deals in Rwanda) (Figure 11). Multiple investors are interested in investing across the agricultural value chain. As is common with non-DFI impact investments across the region, financial services has represented a large share of absolute investment, due to the larger ticket sizes possible when placing capital into established banks or microfinance institutions (MFIs). A small number of investments into real estate make up most of the capital disbursed in the “Other” category. As is the case across the region, investors see few viable opportunities in education and renewable energy, with very few deals in Rwanda in these sectors, despite their common perception as having a high potential for impact. In general, however, the small number of deals recorded in Rwanda compared to the country’s great potential means data by sector may not represent future trends.

**FIGURE 11: NON-DFI IMPACT INVESTMENTS BY SECTOR**

Source: Open Capital Research. Note: Chart shows total number of non-DFI impact investors interested in sector; may be multiple sectors.
A large proportion of DFI direct investments are in financial services (nearly 30% of all investments) and energy (13% of all investments). Infrastructure, financial services, and manufacturing absorb more than 50% of total capital disbursed directly by DFIs, driven by investments into air transport, commercial banks, and production of building materials (Figure 12).

**Figure 12: DFI Direct Investments by Sector**

Source: Open Capital Research
Deal Size

As mentioned in the East Africa chapter, most non-DFI impact deals in East Africa are less than USD 1 million (Figure 13). In Rwanda, more than 70% of deals completed are below USD 1 million. Non-DFI impact investors report that most high-growth businesses—in Rwanda and elsewhere in the region—require smaller amounts of capital to achieve early growth, but these businesses often lack the track record and sophistication required by investors. Please see the East Africa Regional Overview chapter of this report for more detail on investor expectations.

DFI direct investments in Rwanda are often significantly larger, averaging almost USD 9 million, nearly ten times the average size of non-DFI impact investor deals (Figure 14). This difference is primarily due to investments in energy and infrastructure projects, as well as several large placements in commercial banks. As in other countries in the region, DFI deals under USD 1 million are not common, accounting for only 9% of deals.
Instrument

Non-DFI impact investors in Rwanda follow the regional trend to adopt more creative instruments, though traditional debt and equity instruments are by far the most common (Figure 15). Despite the large number of private deals made with unknown instruments, the small average deal size for known debt investments stands out. Rather than being indicative of any trend, however, this mostly reflects high activity of one particular fund that specializes in small debt investments in Rwanda.

The prominence of debt over other instruments is also seen among DFIs, which have overwhelmingly used loans as their preferred instrument for direct investments in Rwanda, in some cases offering a combination of debt and equity. Pure debt investments constitute close to 90% of all capital disbursed by DFI direct investments and close to 70% of direct DFI deals (Figure 16). No disclosed equity investments by DFIs are recorded for Rwanda.
Local Presence

The ease of setting up an investment company in Rwanda is reflected in the number of investors with local presence. Kigali boasts more impact investor offices (9) than Addis (6), and is not far behind Kampala (12), despite Uganda’s population and economy being over three times larger than Rwanda’s (Figure 17). An additional 39 impact investors interested in Rwanda have offices in the region—primarily in Nairobi—while the remaining 48 are based outside the region, mainly in Europe and North America. To date, no impact investors have headquartered in Rwanda.

Impact Tracking Standards

Across the region, most impact investors do not specify a specific standard for measuring the impact of their investments. This is also true in Rwanda. Instead, investors typically report using flexible structures that are customized for each new investment. This customization allows investors to reduce the administrative burden for their portfolio businesses and focus on the metrics that are most meaningful. For more detail on impact measurement in East Africa, please see the East Africa regional chapter of this report.
**DEMAND AND NEED FOR IMPACT INVESTING CAPITAL**

Rwanda's small economy naturally limits the number of active social entrepreneurs, but the existing demand for impact capital appears to be strong. Despite Rwanda's progress and development compared to other countries in the region, there remain significant gaps in the provision of key goods and services which create opportunities for entrepreneurs to fill these needs while also realizing financial returns.

**Development Context**

Despite robust economic growth and rapid modernization, Rwanda remains well below global averages for human development indicators as defined by the United Nations (Figure 18). Overall, Rwanda ranks 151st out of 187 countries on the UN Human Development Index, a composite statistic of life expectancy, education, and income indices.13

![Figure 18: UN HDI Scores, 2008-2013](chart)


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Rwanda performs below global averages on almost all key development indicators. For example, more than 60% of Rwandans live on less than USD 1.25 per day, well above the global average of around 25% (Figure 19). Similarly, almost 45% of Rwandans live below the Rwandan national poverty line, compared with 30% globally.

Rwanda also performs considerably below global averages on key health metrics. Its ratios for under-five mortality and infant mortality are significantly higher than global averages. These low rankings reflect the unequal access to healthcare for wealthy and low-income populations that is endemic to the region. Under-five stunting, for instance, is nearly 50% higher than global averages (Figure 20).\textsuperscript{14}

Rwanda significantly underperforms compared to the regional average on some education metrics (Figure 21). For example, only 7% of Rwandans have at least some secondary education, less than half the East African average. Approximately 32% of appropriately aged Rwandans are currently enrolled in secondary education, close to the East African average of 33%, but only around half of Kenyan enrollment rates.\textsuperscript{15}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure_21.png}
\caption{KEY EDUCATION INDICATORS (LATEST AVAILABLE DATA POINT)}
\end{figure}

Like other East African countries, Rwanda has a disproportionately young population, where 45% is under the age of 15 and more than 60% is below age 25 (Figure 22). This has led to high youth unemployment and underemployment—over 40% according to the African Development Bank—that could in future undermine Rwanda’s strong economic performance to date.

![Figure 22: Population by Age and Gender](source: UN ESA, World Population Prospects)

**Entrepreneurs**

As in the rest of East Africa, entrepreneurs in Rwanda are responding to increasing interest from investors—many of whom perceive Rwanda to have the friendliest business climate in the region—by starting new social enterprises. At the same time, social entrepreneurs in Rwanda who are seeking impact capital face many of the same challenges as their counterparts across the region. Please see the Entrepreneur section of the East Africa regional chapter of this report for details.


Enabling Impact Investing: The Ecosystem

Rwanda is home to relatively few intermediaries and service providers, which is perhaps unsurprising given its small market and low volume of impact investing activity to date. At the same time, several regional service providers based elsewhere in East Africa, especially consultants, regularly provide support to local businesses and investors. Setting up a business in Rwanda is easy, and its business environment provides fertile ground for new intermediaries and service providers as the economy continues to grow and more impact investors search for deals. Large multilateral aid institutions have begun to directly enter Rwanda’s impact ecosystem, as well. For example, GIZ—the German governmental development agency—launched its EcoEmploi program in 2013, providing incubator-type services such as training and counseling for SMEs.\(^{18}\)

Regulatory Environment

Rwanda has successfully built a reputation as the most welcoming business environment in the region. The World Bank’s Ease of Doing Business rankings reflect these efforts: At 46\(^{\text{th}}\) globally, Rwanda ranks first in East Africa and third in sub-Saharan Africa, behind only Mauritius and South Africa.\(^{19}\)

Investors and entrepreneurs generally echo the World Bank’s conclusions. The Rwanda Development Board (RDB) has set up a one-stop center that processes incorporation, immigration and certification requirements in a matter of days. Moreover, several of those interviewed for this report praise the government’s efficiency and transparency, as well as its receptiveness to listen to and act on complaints, particularly if lodged by businesses or investors bringing larger amounts of capital. Government is seen to successfully promote exports, for instance by introducing quality seals and certification standards to mark agricultural produce as import-grade for the European Union.

Although registering a business in Rwanda is remarkably easy, several interviewees also note that the regulatory landscape grows more complicated after registration. Various offices and ministries do not always coordinate, so instructions or advice given to a business by one government agency may directly contradict advice from another. For instance, some entrepreneurs experienced difficulties in obtaining approved work permits due to imperfect communication between the Rwandan Development Board and the immigration authorities.


Despite this, the overall regulatory climate in Rwanda supports foreign investment across a number of dimensions:

- **Repatriation of profits and dividends**: The Rwandan constitution protects tax-free repatriation of principal and dividends. However, certain restrictions apply: export earnings must be repatriated within three months of goods crossing the border and sold on domestic foreign exchange markets or kept in foreign currency accounts at licensed commercial banks. In general though, investors report very few complications with repatriating capital.

- **Foreign exchange controls**: Rwanda has open foreign exchange rules. Foreign exchange is freely available from commercial banks and can be acquired at similar rates by locals and foreign nationals. Exchange across East Africa still poses a significant risk, as hedging tertiary global currencies can be prohibitively expensive.

- **Leasehold structure for foreign land ownership**: Rwandans and foreigners are freely able to acquire land both from the government and private persons. Land leases are limited to 49 years for foreign investors, though these leases are freely renewable, and freeholds are granted to businesses if ownership is over 51% Rwandan or if they are located in Special Economic Zones. Government land leases are “emphyteutic”, meaning that acquiring land can be conditional on putting it to certain uses (cultivating specific crops, for instance). Indeed, some investors expressed frustration that the government would mandate planting specific crops on leased land. Similarly, the government is known to repossess land from investors that fail to implement planned projects. In 2011, the government reclaimed 100 hectares from an American investor after a manufacturing project stalled.

- **Local ownership requirements**: By and large, Rwanda does not restrict foreign investors from owning shares in a company, though the government strongly encourages local participation. Similarly, there are no prohibitions on foreign firms acquiring Rwandan firms or on joint venture arrangements between Rwandans and foreigners.

- **Government enterprises**: Though the government has increasingly made an effort to privatize, state interests still pervade the private sector. The state holds minority interests in many major businesses in telecommunications, tourism, and financial services. For instance, Crystal Ventures, a Rwandan investment company that owns some of the largest businesses in the country, is owned by the Rwandan

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Patriotic Front, Rwanda’s ruling party. Although overt corruption is extremely low in Rwanda, there is still the perception among investors and entrepreneurs that state-run companies receive preferential treatment, which in turn undermines free-market competition.

Ecosystem Players

As one of the smaller markets in the region, Rwanda’s impact ecosystem remains relatively undeveloped. While there are more than 30 different organizations supporting impact investment and social entrepreneurship in Kenya, far fewer are based in Rwanda (Figure 23). There are clear gaps in the support available, in particular for organizations that can produce a larger number of investment-ready opportunities.

FIGURE 23: SELECTION OF CURRENTLY ACTIVE INTERMEDIARIES AND SERVICE PROVIDERS

Source: Open Capital research, organization websites. Note: chart focuses on those with local presence; many international players active

The support ecosystem includes many players common to the region. As in other countries in East Africa, support is skewed toward seed-stage ventures, leaving a gap for intermediaries and service providers operating with business more appropriate for non-DFI impact investors—please see the ecosystem players section of the East Africa Regional Overview chapter of this report for more detail. A small number of consultants have local offices in Kigali and specialize in serving the Rwandan market. A greater number operate in Rwanda but are based abroad, predominantly in Nairobi. To date, few investor networks and business plan competitions have been available in Kigali, reflecting Rwanda’s emerging entrepreneurship scene. Some investors based in Kigali address the lack of support for early-stage businesses by providing their own incubators, which then serve as the primary source of pipeline for subsequent investments.

Other Service Providers

In addition to intermediaries, a number of accountants, lawyers, and other service providers are active in Rwanda, though several investors interviewed are skeptical of the quality of professional services. Particularly for small companies or family-owned businesses, developing clear financial documentation and obtaining high-quality legal representation can be challenging. Several of the major global professional services firms have local offices in Kigali, but these are rarely affordable for the stage of business typically targeted by impact investors.
CHALLENGES AND OPPORTUNITIES FOR IMPACT INVESTORS

Challenges

Despite Rwanda’s reputation for business friendliness and government efficiency, impact investors face a variety of challenges:

- **Small markets:** With only a little over 10 million inhabitants, Rwanda’s population is a third of Uganda’s, a quarter of Tanzania’s and Kenya’s, and an eighth of Ethiopia’s. Even the most promising businesses will have relatively few customers. This problem is particularly acute for businesses that do not directly serve base of the pyramid consumers, given the infancy of Rwanda’s middle class. In response, several entrepreneurs and investors are considering Rwanda as a launching point for concurrent operations in Burundi and the eastern DRC (see below).

- **Import and transportation costs:** As a landlocked country with nascent extraction, power, and manufacturing industries, Rwanda faces high production and logistics costs. In theory this creates opportunities to fill these needs, but at present costs can be prohibitive for investors and entrepreneurs. Goods imported by sea must travel through Kenya and Uganda before reaching Kigali. As a result, transport often comprises up to 40% of the total value of both imports and exports, compared to an average of 17% in developed countries. Rwanda’s hilly terrain and heavy rainfall complicate road construction and maintenance. Distribution infrastructure remains poor, particularly from neighboring countries into Rwanda, though the government hopes the USD 13.5 billion Mombasa-Kampala-Kigali railway, expected in 2018, will alleviate some of these issues.

- **Weak entrepreneurial culture:** Several investors noted that Rwanda’s base of talented entrepreneurs is considerably weaker than in some other East African countries, even on a per-capita basis. Some attributed this to the legacy of donor aid money over the last decades. There is a perception among local investors that Rwandan entrepreneurs lag regional counterparts in embracing and applying basic business concepts such as bulk discounts. Government-run entrepreneurship training has sought to tackle this gap, though some investors wondered whether these efforts are sufficiently focused on individuals with signs of entrepreneurial talent.

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• **Limited pool of experienced, local staff:** Based on interviews conducted for this report, impact investors struggle to find experienced local staff to support both their own investment teams and their portfolio companies’ management teams. On the one hand, entrepreneurs note that Rwanda’s tertiary education system does not adequately prepare graduates for professional jobs; on the other hand, the government’s replacing French with English as the official language of education led to what some view as a lost linguistic generation—a generation who lack the French skills to engage with Rwanda’s mostly francophone rural areas, but also lack the English skills to connect to international markets. As a result, many middle and senior managers are drawn from Uganda, Kenya, or even India. Even when a talented, experienced professional can be found, they often command high wages that can be challenging for SMEs or impact businesses to support, especially in their early years.

• **Government involvement:** Investors and entrepreneurs almost unanimously praise Rwanda’s government for its transparency and lack of corruption. At the same time they are quick to point out that no deal happens without government involvement, regardless of sector. Typically this involves relatively benign intervention to ensure that individual projects tie in with official growth policies. Nevertheless, local investors caution that, despite the Rwandan government’s reputation for being business friendly, investors still need to pay careful attention to meeting various government requirements.

• **Immature investment markets:** Most Rwandan SMEs operate informally and lack the financial records and account-keeping standards that impact investors often require. Entrepreneurs frequently keep multiple sets of financial records and merge business and personal banking. Local entrepreneurs have limited experience with private equity-type investment deals and often wildly overvalue their companies. As a result, the number of deals to date, and the number of investible companies, are highly limited, as are the number of successful exits. This lack of exits has made it difficult for impact investors to prove their track records.

• **Long diligence processes:** Due to limited market research and a lack of strong local service providers, investor diligence can often stretch 12 months or more. This lengthy process can damage relationships with entrepreneurs, who often view it as indicative of a lack of trust. It also puts additional pressure on the business and can lower long-term returns as companies must survive without needed growth capital, creating a significant opportunity cost as management teams spend time courting investors.
Opportunities

While these challenges are significant, they present many opportunities for impact investors to respond and strengthen their operations in Rwanda. Specific opportunities for impact investors are as follows:

- **Expand to neighboring markets:** Burundi and the DRC provide strong expansion opportunities for businesses and investors based in Rwanda. Affluent Burundians and Congolese already make routine trips to Kigali for medical treatment and banking. Both Burundi and the DRC are less than four hours’ drive from Kigali along safe, well-paved roads, and both hold large, underserved markets. Together, the two countries add another 30 million potential consumers. These markets are challenging; Burundi has some of the weakest institutions in the region and the Eastern DRC has limited rule of law. At the same time, the Rwandan government is actively encouraging cross-border trade, for instance through new bonded warehouses in Rusizi and Rubavu, near the Congolese border.29

- **Develop sector expertise:** Beyond bringing capital to portfolio companies, impact investors can drive growth, returns, and impact by understanding the specific sectors where their portfolio companies operate. For some investors, this sector focus has allowed them to identify exciting, less well-known opportunities earlier and reduce their diligence timelines by leveraging existing knowledge. Sectors such as agriculture, energy, and financial services present large opportunities where companies often face similar pre-competitive challenges—these learnings can be shared across portfolio companies.

- **Increase local decision-making:** Where possible, impact fund managers have cited significant improvements in their portfolio through local decision-making and local support. This allows investment officers to form meaningful relationships with portfolio companies, where they are empowered to quickly respond to changing realities on the ground.

- **Take active oversight roles:** Impact investors in Rwanda have increasingly sought to mitigate the challenges above through more direct participation than might be necessary in more mature East African markets. Some investors have shifted to a majority-stake model after experiencing difficulties in getting entrepreneurs to execute agreed strategies. This type of structure could also allow for a management buy-back of majority ownership as an exit strategy.

Impact investors also highlight opportunities across the following sectors:

- **Agriculture:** Rwanda is extremely fertile and widely recognized as a prime grower of tea and coffee, among other crops, presenting significant opportunities for export to developed markets. However, these industries lack modernization, particularly in terms of inputs and storage, and yields are still well below international benchmarks. Exports are also more costly due to Rwanda’s land-locked geography. The agriculture sector not only lacks technological

sophistication, but is inadequately financed by local banks. Many interviewees identify opportunities for agriculture-tailored financing products that take into account the cyclicality and uncertainty of commodities markets.

- **Renewable energy**: Rwanda’s power generating capacity is still well below what is needed to power its growing economy. Much of Rwanda’s energy is imported, making electricity costs among the highest in the region at an estimated USD 0.22 per KWh, more than double the regional average. The government is devoting significant resources to increasing local generation and rural electrification, but there is still room for private sector energy products in a country where 80% of the population does not have access to the grid.

- **Manufacturing inputs**: Along with the high cost of power, one of the key constraints for Rwanda’s manufacturing sector is the lack of raw materials and inputs. Most of these are imported at high cost from Kenya and Uganda, as well as India and China in some cases. For instance, an agricultural processing business interviewed noted that there are no Rwandan producers of flour storage sacks. Though the manufacturing sector will likely benefit from the government’s investment in local extractive industries, key inputs will remain undersupplied without private sector initiative.

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ABOUT THE GLOBAL IMPACT INVESTING NETWORK

The Global Impact Investing Network (GIIN®) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see www.thegiin.org.

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