Addressing “Rwanda’s Economerisks”:

Funding youth innovation: As a matter of urgency to foster lasting stability:

Me. Gatete Nyiringabo Ruhumuliza

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Content:

- How African economies need a complete overhaul.
- Part one: the African market
- Part two: rent-seeking by the oligarchy as a form of corruption on a youthful continent.
- Youth do not have the discipline to service 17-25% interests loans monthly.
- Banks are not for the market.
- The East African youth is economically disenfranchised.
- 15 million youth come on the job market annually to find only 3 million job.
- Africa faces a velvet, a bloody or golden revolution. Our leaders must choose.

Introduction:

Africa is much wealthier than the world believes, for its number one wealth is untapped: Its youth, also known as a preferential ‘demographic dividend’. 450 million Africans are aged between 15 and 35 and that number will double by 2050 (AfDB 2018). Unfortunately, Africa’s financial system is designed as that of other continents with ageing populations, yet the demographics are different, have different priorities, personalities and activities.

Rwanda is no different. The population is very young with 40.1 percent being under age 15; 20 percent between 15 and 24, and 68.7 below age 30 in 2015[1]. In 2017, there were 1.7 million registered first time voters in the presidential elections[2]. This figure corresponds with the 12.4% unemployment rate in Rwanda[3]. This is a fresh problem. Initially there were no skills on the Rwandan market, with 90% of the population being made of subsistence farmers; today the market cannot absorb the skills available of 200.000 new entrants on the job market annually[4].

While that is a strong sign of social transformation, the median income from Rwandans’ main employment is a mere 31,300 RWF per month ($37) and the composite rate of labor underutilization is 60.3%, meaning that many among the youth are not only unemployed, they

[1] NISR, EICV 4, 2013/14.
[2] See: http://www.newtimes.co.rw/section/read/217479/
[3] See: https://tradingeconomics.com/rwanda/unemployment-rate
See New Times of August 06, 2017 http://www.newtimes.co.rw/section/read/217479/
[4] OECD, 2017 African Economic Outlook

are underemployed.[5] Off-farm jobs are being created at a rate of 146,000 per year[6], while 69% still primarily engaged in agriculture[7].

This article discusses lack of financial products to power youth innovation in Rwanda and Africa at large. It assesses Rwandan financial sector, and highlights the scarcity of youth-targeted financial facilities and warns of either a youth revolution or a slowed economic transformation. Its primary argument is that African economics should be reimagined, divorced from global templates that serve rent-seekers and redesigned to serve Africa's clientele, namely the youth.

Literature review:

Paul Romer, professor at New York University's Stern School of Business and former chief economist at the World Bank was awarded the 2019 Nobel Prize in recognition of his research that laid the groundwork for what is known as the 'endogenous growth theory'.[8]

The theory assesses how market imperfections impeding growth can be addressed by technological advances, new research, policy interventions and other innovative ways of thinking outside of the economic sphere. In a nutshell, Mr. Romer believes that 'ideas' are the most important asset of economic growth, contributing as much as the traditional inputs of labor, skills and physical capital. He argues that knowledge and innovation are key factors of economic growth and says this explains why two countries with relatively similar demographic and natural conditions may have big variations in growth and living standards.

He thus conceives growth in economies that are conducive to innovative ideas, and cautions against alarmist warnings, apathy and hopelessness of banks and financial analysts as enemies of innovation and ultimately of growth. The endogenous theory is especially relevant for the African continent, where most of the population is young and prone to innovation. Unlike their counterparts on other continents, the African youth aren't given the financial latitude to innovate. The distribution of funding is skewed in youth's disadvantage.

Paul Romer's work echoes the theories of Karl Marx in the distribution of wealth. Marx focused on the functional distribution of income between capital and labor. Karl Marx defines capital as a social, political, and legal category of control of the means of production by the dominant class. 'Capital could be money, machines. The essence of capital is neither physical nor financial, but the authority to make decisions and to extract surplus from the worker.'[9] Essentially, Marx saw capital as the engine of inequality. In the Rwandan and indeed in this paper's discussion on this fraught concept, it is the difference between those who can easily access funds, and those who can't.

Neoclassical economics framed the discussion to reduce capital to ownership of physical items such as land, real estate, factory, machinery, cars, etc. They treated capital from a ratio of capital-

[5] Labour Force Survey Report - Pilot (February 2016)
[6] Private Sector Development and Youth Employment Strategy (PSDYES) 2018-2024
[7] NISR, EICV 4, 2013/14.
[8] Romer, Paul M. 1994. "The Origins of Endogenous Growth." *Journal of Economic Perspectives*, 8 (1): 3-22.DOI: 10.1257/jep.8.1.3
[9] Karl Marx, Das Kapital, 1867

to-income, and disregarded human capital, creativity and innovation. It is this conception of capital which, from the onset disadvantages the youth, which is sadly applied in African economies. It is no accident then that individual income for those who own capital continues to soar due to high savings, while growth and productivity in general are in sharp decline. Rwanda for instance, as one of the fastest growing economies, has not managed to create a middle class in over a decade of a consistent 7-8% annual GDP and a sustained industrial growth averaging 10% since 2010[10].

Tomas Piketty in *Capital in the Twenty-First Century*, argues that the funds allocation remains skewed globally. This has as a consequence to generate 'an explosive spiral of increasing inequality of wealth and income'. Piketty extends that focus to the personal distribution of income and wealth, and especially to the concentration of wealth at the top centile or 1 percent of the distribution. Capital, as he treats it, includes not only the productive capital of textbook economics but also personal assets that are inherited or accumulated by individuals through savings and investment of their labor income, including in real estate, it shares information on the flows of income, transfers of wealth, and the distribution of financial resources[11]

Financial inclusion in Rwanda. Source: FinScope 2020

Money Management:

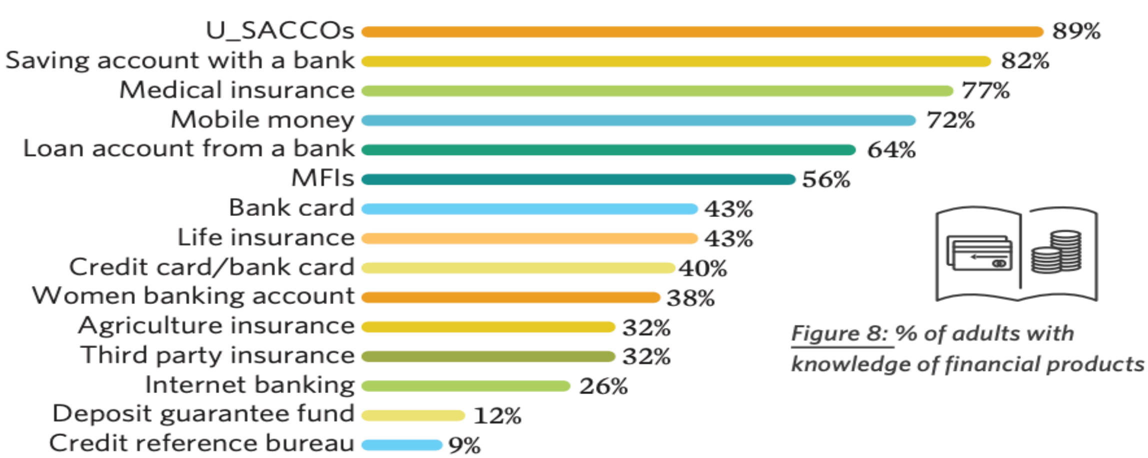

Figure 8: % of adults with knowledge of financial products

Youth banks are failing.

The reason demographic-specific financial products such as youth and women funds are established on the market is to mitigate impediments built-in traditional facilities that thwart these demographic clusters from accessing capital. The traditional obstacles include cumbersome paperwork, collateral, solid employment contracts and viable business plans; none of which can be produced by most of the Rwandan youth. Bank loans that would be conducive to the youth, would require minimal paperwork and be accessible digitally through phone apps. However current loan products are designed in a non-youth friendly manner. So the youth turn to microfinance, which operate between 19 and 25% interest rates, and in turn are trapped in a

[10] BNR BOP accounts; NISR, EICV and National Accounts.

[11] James K. Galbraith, "Kapital for the Twenty-First Century?" *Dissent*, Spring 2014, www.dissentmagazine.org/article/kapital-for-the-twenty-first-century.

circle of poverty. At our think-tank IPAR-Rwanda , we observed variables of poverty graduation, but were unable to determine factors of poverty relapse. However, the variables revolve around lack of factors of production in the hands of the youth.

Infrastructures of production are not hotels and real estate, but railways, power lines and an enabling tax policy; training in TVET, information technology, etc. The laying of the optic fiber in rural areas for instance, is a priority in Rwanda and is optimizing the 40 working hours a week, especially for the youth.

Access to finance stand by age group

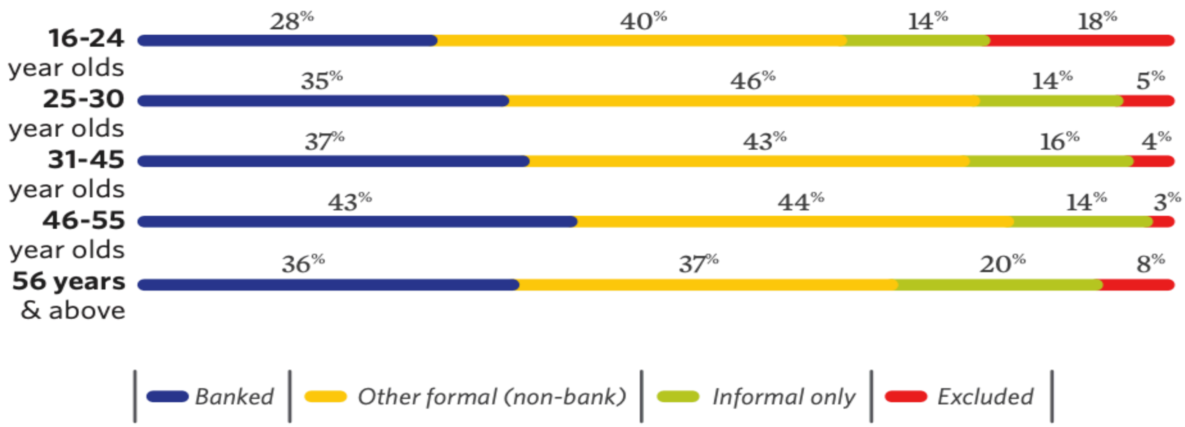

Table 6: Distribution of excluded adult population	TOTAL POPULATION (%)	EXCLUDED (%)
Location		
Urban	24	8
Rural	76	92
Gender		
Male	44	40
Female	56	60
Age category		
16 - 17 years	4	18
18 - 30 years	26	32
31 - 40 years	23	15
41 - 50 years	19	9
51 - 60 years	16	10
Older than 60 years	13	16

Banked: About 36% (2.6 million individuals) of adults in Rwanda are banked or are using banking services. The banked population has increased by 1.1 million since 2016.

Excluded: Only 7% of adults in Rwanda (0.5 million) do not use any financial products or services (neither formal nor informal) to manage their financial lives.

Mobile money: About 87% (6.2 million adults) in Rwanda have access to a mobile phone with around 3 in 5 (61%) adults use mobile money.[12]

Existing mechanisms to promote youth' access to finance:

Business Development Fund (BDF)

Created to provide guarantee for loans, refinancing grant, coordination of government grant fund, stimulating SMEs growth and advisory and access to financial service. BDF's main activity youth employment creation are refinancing grant, stimulating SMEs growth and advisory and access to financial service. However a study shows that in Musanze District the fund faced some challenges, including poor planning, shortage of fund, etc.[13]

COOJAD and Business Development Funds (BDF):

Failure of COOJAD: Cooperative de la Jeunesse pour l'Auto-emploi et le Developpement (COOJAD) is a youth savings and credit cooperative society, created to help youth access credit. The first was opened in 2007 in Kigali to address the cumbersome loan conditions that hinder access to funds for youth, with loan sizes of up to three million Rwandan Francs[14], most didn't last. The reasons include lack of financial discipline among the youth leading to non-performing loans. Of the ten micro-credits opened, only one is still operational, while most were bankrupt or near-bankrupt or merged with Umurenge SACCO, in extremis.[15] Those were the official reasons given, in the following paragraph will establish the "unsaid reason".

Umurenge SACCO:

Established in 2008, Umurenge Savings and Credit Cooperatives (SACCOs) came to serve those hard-to-reach populations in rural areas excluded from the formal financial institutions' (MINECOFIN, 2009), raising financial penetration from 21% in 2008 to 42% in 2012 and multiplying by five the number of banked population within three years of existence, according to the Financial Inclusion Survey (Fin Scope 2008 and 2012).[16]

It made sense to merge COOJAD with Umurenge SACCO, which, by design is youth-friendly. SACCO lends to the uneducated, unskilled or landless, who make up 18 per cent of Rwanda's adult population. However, SACCO have failed to ensure an significant poverty graduation leap among the poor. SACCOs, like all microfinance institutions lend at 25 percent interest rates to its clients. That is extremely high. This is one of the reasons poor people struggle to make any profit.

To guarantee profit, SACCOs buys treasury bonds in the central bank 12 per cent. This is bad economics - or more fairly - it is risk-averse economics, or as I call it: "*Rwanda's economerisks*".

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[12] International Financial Corporation (IFC), Country Report Rwanda, 2016.

[13] Mpakaniye, Dr. Jean Paul, The Role of Business Development Funds (BDF) in Creating Employment for the Youth in Rwanda (October 13, 2017). Available at SSRN: https://ssrn.com/abstract=3052140 or http://dx.doi.org/10.2139/ssrn.3052140

[14] https://www.mftransparency.org/microfinance-pricing/rwanda/005-COOJAD/

[15] https://www.kigalitoday.com/ubukungu/ubwiteganyirize/article/muri-coojad-icumi-hasigaye-iya-bugesera-gusa

[16] Access to Finance Rwanda (AFR) and the National Institute of Statistics (NISR), the Financial Inclusion Survey (FinScope)-Rwanda 2019/20, 2020.

The Sacco's role was not to grow and make money. Their role is to reduce poverty, to remain small and closer to the people at the grassroots. Unfortunately, over time, they all betray their mission and the poor people — their members — to become more profitable and much bigger.

The National Strategy for Transformation (NST1) targets to create 200,000 off-farm jobs per annum, in order to meets its employment targets by 2024. However, only over 140,000 jobs are created annually[17]. The informal sector still accounts for 95% of firms even if 1,000 new formal firms emerged between 2011 and 2014.[18]

The Private Sector Development and Youth Employment Strategy (PSDYES) 2018-2024, introduced two major programs:

Growth Anchor Firm Initiative (GAFI) is a "single unified umbrella for all support to the private sector targeting big companies known as 'Anchor Firms' in key value chains, supporting them across the board with technology upgrading support, skills development, access to finance, trade facilitation and more.

The Domestic Supplier Development Unit (DSDU): the DSDU will support large buyers to source from local suppliers as well as supporting the suppliers to upgrade their capacity to meet the requirements of large firms. It is the promotion of productive *chains*, over productive *firms*.

Additionally, a number of measures were earmarked by the PSDYES to address youth employment:

- Fully operationalize the Labour Market Information System to link the various stake - holders involved in skill development and job creation including the education sector, job market and job seekers;
- Promotion of workplace readiness programmes including internship, mentorship and on-job training Programme;
- Invest in production, value addition and agro-processing to create quality jobs through sectoral linkages as articulated in the crop intensification programme;
- Enhance agricultural production and profitability by promoting irrigation, increased use of fertilizers, mechanization of agricultural practices, and securing of access to high-value markets for smallholder farmers;
- Provide opportunities for greater involvement of youth in entrepreneurship and job creation, including optimization of the empowering role of information technology;
- Address the infrastructure limitations that hamper economic productivity and growth of the private sector including investing in consistent and sustainable energy generation and distribution, building roads and railways to link production zones to markets, and investments in technology to improve productivity;
- Promote small and medium sized enterprises by facilitating establishment of cooperative societies; more access to capital; training and capacity building and exploration of lucrative markets;

[17] Integrated Households Living Survey (EICV5), 2016/17
[18] Establishment Census 2014.

- Diversify the economy by reducing dependence on the agricultural sector and enhancing value-addition and manufacturing to take advantage of international bilateral trade opportunities, and the recently launched “Made in Rwanda” initiative.[19]

It is quite remarkable that of all these measures, access to capital isn’t seen as a major, if not the main obstacle to youth employment*; it is as though there is a conspiracy not to put money in the hands of young people.*

Yet, unemployment is one of the mounting problems being faced by contemporary business world (Ilyas, 2012). Individuals having own way of employment is what contributes significantly towards development of the national and society (Wanberg, 2012).

The sloth in economic shift is rather worrying, but it is not surprising: To make the money, multinational and cartels used to fund coup d’états, armed factions, pollute entire regions and destroy marine life. Today, young people at Facebooks, Twitters and googles, are showing that money can be made cleanly. Unfortunately, in the era of crypto currency and artificial intelligence, the Burundian president is seen planting beans, harvesting honey by hands and preaching the gospel.

There seem to be prevailing consensus that poverty in Africa is caused by corruption. But there is corruption in America too, in Singapore and South Korea; in fact, in some parts of the world corruption is in-built in the business model and it is tax-deductible. This consensus is self-serving to conservative economists. The problem is elsewhere; in Africa the corruption is built-in the economic and political models which alienate the youth and exclude the majority of the population from the financial life of the country.

Conclusion: The impending youth revolution.

The rest of the world, with an ageing population, invests more in education and innovation than Africa does. In those countries**,** factors of production are in the hands of rent-seekers and accordingly the state has been captured to serve the oligarchy, which represent a tiny minority in Africa. Bank bailouts and increasing pension liabilities for instance, syphon off the available funds for investment in innovative projects of the youth and create the anxiety and desperation referred to by Romer.

On an boat experimented with young migrants trying to cross the Mediterranean to go on to the West, the conversation is focused on curses and calls for all possible tragedies to African leaders.

The young African migrants have no illusion as to the fate awaiting them across the Mediterranean. It is not that they expect to be welcomed with open arms in Europe, they anticipate hardship. But such is their destiny and they blame it all, rightly, on African rent-seekers.

Alas they do not want them in Europe. Italy is deploying troops in the Sahel to shoot on sight. Bedouins lay awake in the Sinai. African youth are about to stay on the African continent and overthrow the establishment – as they should.

[19] Private Sector Development and Youth Employment Strategy (PSDYES) 2018-2024

The African oligarchy faces an imminent overthrow; a velvet revolution, with strategic, gradual reform and self-obsolescence; or a violent spring, making countries ungovernable; it has already begun. Examples abound: Al shabab means 'the youth' and Boko Haram is youth-led, so are rebel movements in DRC, and the Arab spring was youth-led. The writing is on the wall, it is only a matter of time.

But there is hope, Africa requires a shift of investment into factors of production: financing, training and infrastructure, to service 'open' markets. In other words, our economies are not to be consumed by politics and bureaucracy. An ongoing study, entitled 'Developmental Regimes in Africa (the DRA Project)' – which features Rwanda, shows that rural development is the only strategic path to prevent an uprising.[20]

In the words of Karl Marx: *'The philosophers have hitherto only interpreted the world, in various ways. The point, however, is to change it.'*

[20] Booth, 'Developmental Regimes in Africa', http://bit.ly/2gOodeI