



# Digital Transformation of Livelihoods

**Research Study** 

February 2021



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# **List of acronyms**

AfCFTA	African Continental Free Trade Area
AFR	Access to Finance Rwanda
AGOA	Africa Growth and Opportunity Act
BFA	Business Frontier Associations
COMESA	Common Market for Eastern and Southern Africa
EAC	East Africa Community
ECCAS	Economic Community for Central African States
EPA	Economic Partnership Agreements
GDP	Growth Domestic Product
ІСТ	Information Communication Technology
ILO	International Labour Organisation
MDR	Merchant Discount Rate
MINICT	Ministry of Information Communication Tr
MSE	Micro and Small Enterprise
MSME	Micro, Small, and Medium Enterprises
NISR	National Institute of Statistics of Rwanda
NST	National Strategy for Transformation
OECD	Organisation for Economic Co-operation and Development
PAYGO	Pay as You Go
POS	Point of Sale System
R-NDPS	Rwanda National Digital Payment System
RRA	Rwanda Revenue Authority
SME	Small and Medium Enterprises
UNCDF	United Nations Capital Development Funds
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
WTA	World Trade Organization

# Definitions

**Digital platform companies** - In the context of this proposal, digital platform companies refer to the small and medium enterprises (SME) that BFA Global will support with venture acceleration services (technical assistance) throughout the program. It refers to the platforms along the digital commerce value chain that can help empower micro and small enterprises (MSEs) to leverage digital tools and commerce for their resilience and growth.

**Digital services providers** - are the tech companies, usually SME in nature, that likely gig workers to deliver digital services and products. They may also be digital platform companies or just a provider of digital services.

**Digital commerce** - BFA Global defines digital commerce<sup>1</sup> as a "broad term referring to the sale of goods and services via digital means. It encompasses all forms of e-commerce or digital trade, as well as the gig or sharing economy."

**E-commerce** - "Also known as electronic commerce or internet commerce,<sup>2</sup> e-commerce refers to the buying and selling of goods or services using the internet, and the transfer of money and data to execute these transactions. E-commerce is often used to refer to the sale of physical products online, but it can also describe any kind of commercial transaction that is facilitated through the internet."

**E-services** - household or professional services that are matched, recruited, and/or provided through an internet connection and digital interface such as a computer or mobile device.

**Informal economy** - the part of the economy that is not measured,<sup>3</sup> representing a sub-optimal allocation of resources, and is associated with small and large scale sectors but is largely unorganized despite being economically productive. In the informal economy, there is usually little difference between the business and person owning the business, and a large number of people are self-employed. The ILO has an expansive definition that includes "all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements."

**Informal enterprises** - The National Institute of Statistics of Rwanda defines the formal sector as businesses registered with the Rwanda Revenue Authority and the Rwanda Development. Informal enterprises are unregistered businesses and therefore unmeasured in the economy.

Informal employment - work that is undertaken without legal protections or services from the state.

**Informal sector** - The International Labor Organization defines the informal sector as "broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organization, with little or no division between labor and capital as factors of production and on a small scale. Additionally, the labor relations - where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees." The large majority of Rwandan enterprises are in the informal sector.

**iWorker** - BFA Global defines iWorkers as "people whose livelihoods are enabled by digital commerce platforms. Many, including gig-workers, eLancers and e-commerce merchants or sellers, are self-employed, but some are employees of other iWorkers, MSEs, and digital platforms. iWorkers have connectivity to the internet, usually via a smartphone and they are often younger than the workforce in general.

**Livelihood** - an income-earning strategy that may consist of formal employment, informal employment and/or gig work as a means of supporting one's existence, especially financially or vocationally.

**Microenterprise (ME)** - The National Institute of Statistics of Rwanda defines this segment as businesses employing between 1 and 3 employees.

**Micro and small enterprises (MSEs)** - The National Institute of Statistics of Rwanda defines MSEs as businesses employing between 1 and 30 employees. We will digitally onboard companies that are largely micro (1-3 employees) but some will be small (4-30 employees) in size. Most businesses in the informal sector are micro in size.

**Micro, small, and medium enterprises (MSMEs)** - The National Institute of Statistics of Rwanda defines MSMES as businesses employing between 1 and 100 employees. The MSME sector can be segmented into micro (1-3 employees), small (4-30 employees), and medium (31-100 employees).

**National Strategy for Transformation (NST 1)** - The National Strategy for Transformation (NST1), is also the Seven Year Government Programme (7YGP) is the implementation instrument for the remainder of Vision 2020 and for the first four years of Vision 2050. It is a national effort to accelerate the transformation and economic growth with the private sector at the helm. The economic transformation pillar entails the creation of "1,500,000 (214,000 annually) decent and productive jobs." Vision 2050 aspires to take Rwanda to high living standards by the middle of the 21<sup>st</sup> century and high quality livelihoods and its aspirations focuses on five broad priorities:

- 1. High Quality and Standards of Life
- 2. Developing Modern Infrastructure and Livelihoods
- 3. Transformation for Prosperity
- 4. Values for Vision 2050
- 5. International cooperation and positioning

**Small and medium enterprises (SMEs)** - The National Institute of Statistics of Rwanda defines SMEs as businesses employing between 30 and 100 employees. The digital commerce platforms, the digital services providers are likely SMEs in nature reflecting a more mature stage of business, larger size, and use of technology and digital.

**Youth** / **young adult** - building on the Foundation's definition of youth as people from the ages of 12 and 35 years,<sup>4</sup> here we refer to youth and young adults, which are used interchangeably, to describe active working age men and women from ages 18-35.

# Currency

Conversion rate: US\$1 = RWF 975.<sup>5</sup> This report uses this rate wherever it provides United States dollar equivalents for Rwandan francs.

# **Executive summary**

This research study aims to answer questions on platform market systems and inform AFR's prioritization of intervention areas that leverage digital commerce platforms to improve youth's and women's livelihoods in Rwanda. In particular, the research informs the "Accelerating growth through expanding the e-commerce sector in Rwanda," a program aiming to digitally onboard MSMEs to e-commerce platforms as a COVID-19 pandemic response and a longer-term national growth strategy.

# State of e-commerce in Rwanda

E-commerce is new in Rwanda and the country as a whole is still in the early stages of e-commerce adoption as demonstrated by the current low uptake and demand by consumers, presenting a challenge to e-commerce growth.



In particular, the COVID-19 pandemic has amplified the value proposition of digital adoption and digital commerce as it has enabled continuity in provision of essential services and goods and facilitated contactless, cashless transactions. Consumers have indicated the likelihood to continue transacting on e-commerce platforms even after the pandemic is over given the efficiency gained in terms of time saved and access to a wider range of goods and services available on e-commerce platforms.

# State of labor and the workforce in Rwanda

Under Rwanda's National Strategy for Transformation (NST) from 2017-2024, the Government is prioritizing the creation of 214,000 decent and productive jobs annually, contributing to an overall average GDP growth rate of 9.1% from 2017-2024. However, the reality of the current labor market in Rwanda is characterized by:



# iWork as a pathway to livelihood for the informal sector

The digital economy and its accompanying social and economic transformation present new opportunities for the informal sector that has usually been associated with low wages, low productivity, few or no protections and exclusion, to become a source of decent and more productive work. Digital commerce platforms open up opportunities for consumers to become producers and find income-generating opportunities through selling goods and services online as iWorkers.

iWorkers are people whose livelihoods are enabled by digital commerce platforms. Many, including gig workers, e-lancers, and e-commerce merchants or sellers, and who are selfemployed although some are employed by other gig workers, e-lancers, and merchants. By definition, iWorkers have connectivity to the internet, usually via a smartphone. They are often younger than the workforce in general. While the proportion of people in this category is small worldwide, it is growing fast and is typically larger in middle-income than in higher-income countries. Preliminary mapping of iWorkers by sector in Rwanda shows that there are:



152,723

digital workers operating as mobile money agents, technicians and gig workers while there are 973,412 unemployed young men and women.

As the labor force grows and digital connectivity expands, it is possible that up to 2.3 million people or almost 28% of the expected labor force in Rwanda could become iWorkers by 2030. This is a relevant and important segment of the labor force in the midst of concerns around "jobless growth".

# **Research study approach and methodology**

This research uses the BFA Global iWorker Country Diagnostic tool that evaluates the extent to which the current environment in Rwanda enables iWorkers to emerge and develop, based on quantitative surveys and qualitative interviews with a range of stakeholders from government, the private sector, and the research sector.

An economy enables iWork if it meets at least a set of six enabling conditions, including internet access, digital payments, legal and policy environment, tax environment, perceived and actual benefits of e-commerce, and the growth of digital commerce platforms.

The iWorker/MSE quantitative research employed a mixed method approach including sampling from an online survey market research platform (CINT) and in-person interviews. The online survey approach was designed by BFA Global as a rapid online dipstick survey in response to COVID-19 social distancing requirements. However, the team resorted to in-person interviews due to a number of constraints including difficulties in getting iWorkers

using an online survey marketplace (CINT). We obtained 14 surveys in May from CINT and 81 survey results through in-person questionnaires.

The qualitative research relied on semi-structured interviews with ecosystem experts and MSES/iWorkers. We used the iWorkers diagnostic framework to frame the conversation and solicit interviewees' perspective on the trends and drivers of change that will affect the market system of MSEs/iWorkers on digital commerce platforms and allow for iWork to emerge as an employment pathway.

# Research findings and enabling environment for platforms to drive livelihoods

# Demand side: characteristics from the consumer survey

101 individuals responded to the survey. The target respondents were those with a household monthly expenditure below RWF500,000 (US\$ 512.82). Majority of respondents were male (74%), age 18 to 35 (85%), with at least secondary, college or have an undergraduate degree (90%), reported spending below RWF100,000 (59%) and own a smartphone (96%), which 75% of them strongly agreed that their smartphones is the only way they connect to the internet. Smartphone usage is mainly for social media. Other uses reported include sending money, browsing for goods and services and paying bills indicating adoption of digital payments albeit at a slow pace. Mobile money payments are more prevalent compared to other digital payments such as credit cards, and bank account applications.

# Supply side: characteristics from the iWorker/MSE surveys

There are two groups of iWorker respondents, 15 online and 81 in-person surveys, amounting to 96 in total. The respondents were segmented into four categories based on the nature of their work, i.e., platform workers (riders), solo entrepreneurs, micro enterprises, small enterprises, medium enterprises based on their number of employees following the MSME segmentation defined in Rwanda by the NISR.

iWorkers and MSEs have reported benefits from joining e-commerce platforms including access to formal credit through transaction reports/history generated on platforms, increased market penetration, improvement in brand awareness, among others.

However, transacting online comes with its own challenges that prevent small merchants from growing and receiving the benefits and efficiencies of a digital presence, including:

the business



payment options

Digital infrastructure: internet access

Access and coverage of mobile and broadband services is widespread but active usage of internet services is still low at 21.8% of total population. Barriers related to device ownership, digital literacy, and affordability negatively affect uptake and use of internet services, particularly from the low-income micro and small enterprises (MSEs) and workers instead of an unreliable network where there is supposed to be coverage.

# Digital infrastructure: online payments

Numerous secure digital payment options are available, with mobile money gaining market dominance and preference for person-to-person (P2P) transfers or merchant/bill payments. The COVID-19 pandemic has further accelerated the use of digital payments.





Nonetheless, interviews with stakeholders highlighted the high cost of transacting digitally mainly attributed to a high merchant discount rate and high international transfer fees for receiving money from a foreign bank account.

# Physical infrastructure: transport and logistics

Third-party logistics services in Rwanda are costly for domestic delivery and there are limited options for shipping internationally, making logistics too expensive for e-commerce to grow. MSEs are finding workarounds to meet transport and logistics needs, including using a combination of their own vehicles and platform delivery system or investing in their own logistics and transport system. The national postal office is uniquely positioned to handle logistics at low cost, but requires strengthening its capacity and addressing existing challenges.

## **Employment policy and laws**

The law is silent on platform workers and there is no government policy on the evolving nature of work. However, the law and practice are fairly clear on the situation of self-employed contractors, a category that iWorkers currently fall under. It also provides a clear framework for the formalization of self-employment, and it does not appear to restrict or limit self-employment or contract work.

## International trade policy

Rwanda is well positioned to leverage its regional block memberships and trade agreements held with several partners to support MSEs and iWorkers looking to expand to international markets. However, the global trend on digital services taxation that are targeting the large search engine services, social media platforms and online marketplaces is alarming for digital commerce companies operating across the globe, including Rwanda.

# **Taxation and social benefits**

The law is silent on platform workers tax code. In absence of legal guidance these workers are treated as self-employed independent contractors for tax purposes. With this categorization, the tax code and entitled benefits are clear. Self-employed individuals and businesses have some benefits from registering themselves. However, the fact that they need to contribute towards their own benefits makes the digital platform work unappealing to some individuals. Also, job security and access to benefits (health insurance, paid leave, etc.) are still very important to job seekers, making the prospect of gig work unattractive to them given the lack of benefits.

## Digital commerce companies in Rwanda

Digital commerce is nascent but platforms are active and growing. The market is dominated by home grown platforms that focus on selling and delivery of essential goods, including food and grocery. e-hailing /transport is not as widespread as food and grocery. International platforms that operated and exited the market transferred the necessary skills to catalyze the e-commerce ecosystem. A few platforms with some traction in the market are founded by ex-Jumia employees.

In general, the biggest constraints on the emergence of productive iWork in Rwanda are not the barriers created by government policy or the legal environment; rather, it is the high cost for adopting digital payments and lack of clarity on a career path/benefits to catalyze and sustain the interest of iWorkers.

The report highlights some opportunities for AFR to use its position in the market to convene the ecosystem facilitators, including government agencies, the private sector, and international organizations and broker partnerships to unlock the potential for digital platforms to provide livelihoods to the growing number of people (and especially young people) in Rwanda and consider the forces at play that will influence how digital commerce may evolve. These include the need to embed digital financial services to enable MSEs and iWorkers, build partnership and influence policy.

# **1. Introduction**

# 1.1 Research study scope

This study sets out to answer two main questions:

What is the market system in Rwanda supported by platforms and its potential to improve the livelihoods of Rwanda, with a focus on youth and women?

2

What interventions could be undertaken by AFR and other development partners to accelerate digital transformation of livelihood in Rwanda?

This research scope informs AFR's prioritization of intervention areas for youth employment and platforms. It also informs the "Accelerating growth through expanding the e-commerce sector in Rwanda" project supported by the Mastercard Foundation and run in partnership with ICT Chamber. This program seeks to digitally onboard MSMEs to e-commerce platforms as a means to survive and manage during the COVID-19 pandemic, and as a longer-term national growth strategy.

# 1.2 Market system framework and the iWorker country diagnostic

The market system we are focusing on in this research project is the digital commerce ecosystem (supply) and potential iWorkers to partake in the digital commerce ecosystem, (demand), Figure 1. BFA Global research shows that the rise of digital commerce (which is broader than e-commerce alone, in that it includes digital work, or e-services) has changed the nature of work and created a new category of workers called iWorkers. BFA Global defines iWorkers as young adults who earn their livelihoods through their digital connectivity, and includes gig or platform workers, eLancers, and online merchants, and operate as micro and small enterprises (MSEs), who are either self-employed or employed by others.<sup>6</sup> These workers are often younger than the workforce in general and earn their livelihoods through connectivity to the internet, usually via a smartphone.

The trends and drivers of change that will affect the market system of iWorkers and allow for iWork to emerge as an employment pathway, come from the categories developed in BFA Global's iWorker country diagnostic<sup>7</sup> to assess the enabling conditions. In 2019, BFA Global developed a country diagnostic to assess the enabling environment for digital commerce to assess the areas for the private sector and policymakers to take action and to spur digitally enabled livelihoods. The iWorker diagnostic is a country-level assessment to identify the opportunities and constraints of digital commerce for iWork at the country's ecosystem level (see diagram below).

#### The diagnostic categories evaluate:



## Figure 1: The market system for digital commerce in Rwanda



We use the iWorker diagnostic framework to assess the market suitability for MSMEs onboarding to e-commerce platforms and evaluate the extent to which the current environment enables iWorkers to emerge and develop. Some known market system barriers identified by ICT Chamber that Rwanda faces to e-commerce growth include:

- 1. Increasing adoption by MSEs to digital platforms and provide digital training so that they onboard onto digital commerce platforms. ICT Chamber had already identified the potential and need to digitally onboard MSEs to platforms<sup>8</sup> so that all the commerce and trade, all the selling and buying of goods over informal channels, can be more productive and benefit more small business owners and workers along the value chain.
- 2. Digital payments and digital commerce are hampered by lack of trust in buying goods and services online, a challenge that even large e-commerce companies like Jumia face, which closed down its operations in Rwanda fully by January 2020 in its pursuit to

profitability.<sup>9</sup> Rwandan digital commerce companies and private sector platforms need to ensure the digital payments infrastructure is interoperable and seamless to ensure trust and drive greater adoption.

- **3.** Growing awareness and trust in e-commerce that drives adoption by MSEs and consumers.
- 4. Access to finance for enterprises to grow the World Bank Enterprise Survey indicates that one of the top barriers to MSE growth in Africa continues to be lack of MSE financing, which is critical for working capital and capital for investment in the business. In 2019, in Rwanda only 33% of registered small businesses<sup>10</sup> took bank loans.

# 1.3 The state of digital commerce in Rwanda

During the COVID-19 pandemic, Rwanda was one of the countries that imposed a lockdown at an early stage and appears to have managed to contain the health pandemic. The Government is now starting to think about how to restart the economy in a way that will favor inclusive growth, especially of the MSE sector given that in the informal sector, 84.3% of enterprises are micro and in the formal sector, 68% of businesses are micro and small according to the 2018 Integrated Business Enterprise Survey<sup>11</sup> by the National Institute of Statistics of Rwanda (NISR). MSEs are often led by young adult workers, with 55% of the employed population figuring between 16-35 years of age based on 2019 Rwanda annual labor force data.<sup>12</sup> In April, and then in June, the IMF approved two disbursements for a total of US\$ 221 million under a Rapid Credit Facility. The latter disbursement in particular focuses on SME recovery through fast tracking VAT refunds, credit guarantees to MSEs in the informal sector, and a digital platform for SMEs to access financial services, launched by the Private Sector Federation.<sup>13,14</sup>

In light of the pandemic, it has become clear that the value proposition of digital adoption and digital commerce are higher for society at large, by providing continuity of essential services and goods and by offering contactless, cashless transactions. From a BFA Global survey conducted in early June 2020 on the perception of e-commerce by Rwandan MSMEs and consumers, the COVID-19 crisis has hit the sector significantly. Some 33% of the respondents reported significant decline in revenue since the pandemic started and 27% said revenue had decreased from pre-pandemic levels. On the other end, consumers' engagement with e-commerce platforms has significantly increased during the pandemic for reasons such as safety in ordering of goods and services and closure of in-person businesses. Furthermore, more than half of the respondents (53%) are very likely to keep using e-commerce platforms as the latter allowed them to save time and access to a wider range of goods and services. In order for digital commerce to be more widely adopted during the pandemic and beyond, there are market system barriers that need to be addressed, which are currently hampering growth in Africa, and in Rwanda in particular.

Despite rising e-potential across the continent, with 62.9% internet penetration in Rwanda and according to the 2020 FinScope report, approximately 30% of Rwandans<sup>15</sup> are transacting using mobile and internet banking, e-commerce transactions are still quite low. For context, the share of internet users in Rwanda buying online was at 11% and the share of

the population buying online was only 1% based on FINDEX 2017 data. Although this figure is likely to have grown since then, e-commerce is new in Rwanda and the country as a whole is still in the early stages of e-commerce adoption demonstrated by the current low uptake and demand by consumers, which will be a challenge to e-commerce growth. Along the same lines, UNCTAD's 2018 E-commerce Index ranked Rwanda 121<sup>16</sup> out of 152 countries - and has decreased in ranking since 2018.

# 1.4 The state of labor and the workforce in Rwanda

In Africa, the high unemployment rate and scarcity of formal jobs means jobless growth is the biggest challenge facing its youth. Under Rwanda's National Strategy for Transformation (NST) from 2017-2024, the Government is prioritizing the creation of 214,000 decent and productive jobs annually, contributing to an overall average GDP growth rate of 9.1% from 2017-2024.<sup>17</sup> This translates to an increase in per capita GDP of US\$ 923 in 2020 to US\$1382 in 2024, an ambitious 50% increase in the remaining four years.

However, the reality of the current labor market in Rwanda is characterized by:



# 1. High youth unemployment

Youth, defined as the population whose age is between 16 and 30 years by the UN, make up about 27% of the total population<sup>18</sup> in Rwanda. This large and growing youth population presents both a challenge and opportunity to policymakers amidst the growing unemployment rate in Rwanda. The 2020 Labour Force Survey reports a 15.2% overall annual unemployment rate in Rwanda. In particular, the rate of unemployment among youth is the highest (19.4%) followed by women (17%) and urban (15.3%).<sup>19</sup>

# 2. Dominance of the informal labor market

Employment in Rwanda is largely informal and a large proportion of the workforce is involved in agriculture (61.2%). Informal employment contributes 89.5% of total employment. As a result, youth, in particular with no educational attainment, are more likely to flow to and remain in low-productivity informal employment.

**3. Dependence on agriculture - a transition from primary sector to tertiary sector** Decreasing the population dependent on agricultural activities to 50% by 2020 has been one of Rwanda's principal objectives. Although progress has been made, Rwanda is yet to achieve the set target and shift the majority of the workforce from low productivity to high-productivity economy based on industry and services. Thus, attaining a labor market structural shift is a priority for Rwanda to reduce underemployment and unemployment especially among the youth and women in both urban and rural areas.

# 4. A bounce back scenario from the global COVID-19 pandemic

Just a few days after the first reported cases in Rwanda were reported in mid-March, the country very quickly mobilized rapid-response protocols<sup>20</sup> to successfully limit community transmission by halting international flights and locking down the country with some of the strictest measures in place. By March 22, all except essential businesses were shuttered until May 4<sup>th</sup>, impacting the key industries such as tourism and earners' ability to go out and work. The economy has largely resumed business operations including restaurants, hotel, shops, and tourism operations. While bars remain closed, schools are in the process of phased openings and air travel has resumed.<sup>21</sup> Based on the BFA Global scenarios exercise with AFR, the economy is perceived to be in a bounce back scenario where the economy is at levels prior to the economic shutdown due to public health restrictions and business downturn.

# 1.5 iWork as a pathway to livelihoods for the informal sector

Given the size of the informal sector (64% of the industry output<sup>22</sup>) and its contribution to total employment, it absolutely must participate in economic growth to reach the NST-strategy levels. Until now, the informal sector has usually been associated with low wages, low productivity, few or no protections, and exclusion. However, rapid social and economic transformation thanks to the digital economy present new opportunities for the informal sector to become a source of decent and more productive work.

By 2030, we estimate up to 2.3 million people or almost 28% of the expected labor force in Rwanda could become iWorkers, see Figure 2 for projections.<sup>23</sup>

# **Figure 2: Estimated number of iWorkers**

# Based on your assumptions, the number of iWorkers in Rwanda will be between:



The proportion of people in the iWorker category is small worldwide, but it is growing fast and is typically larger in middle-income countries than in higher-income countries. While the emergence of more iWork over time is almost certain as economies digitize, the nature and quality of that work are not certain. However, by enabling iWork to be progressively formalized, young workers will be more productive and therefore enjoy better incomes over time.

Our superplatforms research<sup>24</sup> demonstrated that small merchants among which are iWorkers, are finding income-generating opportunities through selling goods and services online, and this is a key value proposition for consumers to become producers through digital platforms. However, selling online is quite challenging and places a lot of the burden and risk on the seller, acting as a barrier for small merchants to be able to grow and receive the benefits and efficiencies of a digital presence.

More user friendly e-commerce platforms

The current functions of the platform ecosystem do not work well for new and small MSEs as it requires a learning curve to digitally onboard, and the e-commerce experience is clunky and time-consuming for the merchant and for the buyer. Instead of seamlessness, merchants have to build online and offline workarounds to be able to sell on e-commerce, which does not scale and does not always create customer trust in buying online. Better means to manage payments

Merchants also need better means to manage digital payments. Many of the e-commerce platforms still use credit cards for online payments instead of mobile money. Even then, merchants have to deal with customers' entrenched preferences to pay in cash and on-delivery because of lack of trust in "what they buy online is what they get in person." Better access to working capital

Merchants also need access to financing as working capital to purchase inventory and upfront the cost of acquiring goods to sell online and investing in equipment to scale their business. Merchants may turn to digital lenders or informal lines of credit but still face the MSE credit gap in growing their businesses. While the dropship model could be a workaround for holding inventory, it is only emerging in the African e-commerce market, requires robust infrastructure, and results in long delivery times if the merchant supplier is in another country or continent. Cross-border trade is also a limiting factor as the cost of sending and managing returns is expensive and risky for the seller and buyer.

Microenterprises and the microentrepreneurs do not have the kind of benefits and protections associated with formal employment and as part of one's safety net, and much less so in the informal sector. Currently, there are no African ecosystem players in the private sector that provide the portfolio of employer-like benefits (health, retirement, disability, paid leave, training/life-long learning) for the informal sector who are essentially gig workers and merchants.

From the standpoint of youth livelihoods and AFR's Phase 3 strategy on driving the impact of financial inclusion in the real economy, the high unemployment rate and scarcity of formal jobs mean jobless growth is the biggest challenge facing youth in Rwanda.

# **1.7 Sizing potential iWorkers**

ICT Chamber has conducted a preliminary mapping of iWorkers by sector to know where they are and in what numbers. In Figure 3, we have 973,412 unemployed young men and women, contrasted with a current estimate of 152,723 workers doing digital work as mobile money agents, technicians, and gig workers in Figure 4.

Figure 3: Total men and women unemployed between 15-39 years of age



Source: NSIR Labor Force Report 2015

# Figure 4: Potential workforce of Rwanda iWorkers (initial estimates)



All these numbers are approximate and do not account for duplicates. These figures have been collected through contacts made with digital services providers by the Ministry of ICT and Innovation together with ICT Chamber as an effort to respond to challenges of penetration, upskilling and setting up of an association that can help the government in facilitating operators as well as increasing public private dialogue. A thorough mapping process is required to clean out duplicates, categorize by parameters; including sectors covered, education background, gender breakdown, geographic coverage areas and growth needs to enable the program to design a fitting career or growth pathway. A more specific and updated mapping will help to identify which segments of iWorkers can improve their livelihoods by expanding the digital services they offer and therefore increase the income they can earn.

# **1.8 Sizing the MSE segments**

The 2018 Integrated Business Enterprise Survey established that "in the informal sector, 84.3% of all businesses were found to have at most three employees, and 71.5% of informal workers were men, and 28.5% women".<sup>25</sup> Table 1 below provides a breakdown of the survey sample.

Table 1. Distribution o	f enterprises by	employment size
-------------------------	------------------	-----------------

Size (employees)	Formal		Informal		
	Frequency	Percent	Frequency	Percent	
Micro	3,314	20.9	144,350	84.3	
Small	7,459	47.1	26,532	15.5	
Medium	3,611	22.8	413	.2	
Big	1,436	9.1			
Total	15,821	100	171,294	100	

Source: NISR, IBES 2018 Survey

As reporting on the informal sector is limited, in Table 2 we refer to the formal sector numbers to provide a segmentation. As defined in the National Institute of Statistics of Rwanda (NISR) 2017 Establishment Census Report,<sup>26</sup> formal micro, small and medium enterprises (MSMEs) are segmented and sized as a market in the following table.

## **Table 2. MSME Definition**

	Micro	Small	Medium
Number of employees	1-3	4-30	31-100
Assets in RWF	<500,000	500,000-15,000,000	15,000,000-75,000,000
Turnover in RWF	<300,000	300,000-12,000,000	12,000,000-50,000,000
Total MSME	171,849	9,585	539
Total MSE	181,973		
Total SMEs		10,	124

Source : NSIR Establishment Census Report

# 2. Research methodology

# 2.1 Quantitative

The quantitative research employed a mixed method approach including sampling from an online survey market research platform, CINT<sup>27</sup> and in-person interviews. The online survey approach was designed by BFA Global as a rapid online dipstick survey in response to COVID-19 social distancing requirements.

# **Consumer surveys: CINT and Decipher**

CINT is an online marketplace where market researchers can contract with vendors to provide access to participants. The marketplace includes roughly 100 million individuals in 150 countries, organized by 4,500 vendors. BFA Global uses the CINT marketplace to obtain samples that are nationally specific, with quota sampling for age and gender using sample proportions. Depending on the size of the pool of respondents available, BFA Global may use additional targeting criteria such as geographic regions within the country, occupation and self-employment, personal income, or household income. These traits are only available for a subset of respondents in each country, and so each additional field used to set response quotas limits the size of the total pool available for each country. CINT panels may include respondents recruited through many different sources: individuals who respond to website advertisements; customer lists and newsletter subscribers; databases of respondents maintained by panel vendors; social media advertisements; loyalty programs; affiliate traffic; and active recruitment by telephone or face-to-face interactions. CINT distributes invitations to participate in web-based surveys by email, and respondents are removed from the pool for seven days upon completing a survey. CINT is certified compliant with data quality and privacy standards ISO 20252 and 26362.

Decipher is a web-based survey platform that allows respondents to complete digital interviews on computers and smartphones. It has a wide variety of question types and scripting capabilities that allow for sophisticated survey logic, randomization, scripting, and response validation. BFA Global uses Decipher to validate response data in real time, set and enforce quotas, and screen out insincere responses to survey questions. Although the platform is capable of collecting free text responses, audio, photos, and video from respondents, we rely mostly on closed-form questions. Closed-form questions are amenable to validation, rather than in-depth or semi-structured interviews with probe and follow-up questions.

# iWorker survey: CINT and in-person questionnaires

The iWorker / MSE survey was conducted using two approaches due to a number of constraints including difficulties in getting iWorkers using an online survey marketplace (CINT). We obtained 14 surveys in May from CINT and 81 survey results through in-person questionnaires. To recruit respondents for the in-person surveys, we received a list of 20 MSEs/iWorkers from e-commerce platform owners, including Olado, eMall and YegoMoto/

YegoCab. We identified the remaining 61 MSEs from platforms such as Vuba Vuba, and SHYPT (HeHe). For delivery riders, we identified restaurants where riders pick up orders for delivery and we were able to conduct the survey as the riders waited for the order to be prepared. We also requested riders to refer us to their colleagues that could be interested and willing to participate in the survey.

# 2.2 Qualitative

The qualitative research relied on semi-structured interviews with ecosystem experts and MSES/iWorkers. We used BFA Global's iWorker Country Diagnostic framework to frame the conversation and solicit interviewees' perspective on the trends and drivers of change that will affect the market system of MSEs/iWorkers on digital commerce platforms and allow for iWork to emerge as an employment pathway.

We leveraged on desk-research and literature review to prepare interview guides with questions aiming to validate findings or provide answers where we could not find information from the desk-research. We used both in-person and virtual meetings to conduct these interviews.

# 2.3 Target and sample population

Below in Table 3, is a summary of the population we reached through the qualitative and quantitative research approaches:

	Consumer Survey	CINT - Online	Expert Interviews	In-person Surveys	Qualitative Internviews
Period	May 2020	May 2020	July to November 2020	November 2020	November 2020
Sample	103	15 qualified	21 organisations 30 interviews	81	21
Questions	39	56	Guide	56	Guide
Income target	RWF <500.00				
Gender balance	74% M/14% F			69 M/31% F	52% M/48% F
Age	18-35 (85%)			18-35 (62%)	
Location	Urban, peri-urban			Urban, peri-urban	
Education	Secondary/ undergraduate (89%)			Primary/secondary (58%)	
Riders/MSEs				41%/59%	

# Table 3. Summary of target and sample population

#### Demand side: Characteristics from the consumer survey

The survey consists of 101 respondents with quota sampling applied to income, the target being those with a household monthly expenditure below RWF 500,000. From that criteria:

- 1. Income: 24% reported spending below RWF 50,000, 35% were between RWF 50,000 and 100,000, 27% of the sample spent between RWF 101,000 and RWF 200,000 on a monthly basis and lastly 14% falling into the RWF 200,000 to RWF 500,000 band.
- 2. Gender and civil status: The sample is heavily male of whom are about three quarters (74%) few females (24%), and 2% did not disclose gender. Of the sample, 98% is composed of single and married individuals, with the remaining 2% being divorced or preferred not to disclose.
- 3. Age: The respondents are segmented into 3 age buckets, where 49% are between the ages of 18 and 25, 36% are between age 26 and 35 and 16% are above the age of 35. About 38% are head of households and 36% are children or grandchildren, reflecting the youth bulge of the sample.
- 4. Education: The respondents are highly educated as well, 90% have been to secondary school, college or have an undergraduate degree. With just 3% having primary education and the remaining 7% having a postgraduate degree or PhD.
- 5. Livelihoods: With respect to livelihoods, respondents have been segmented into three major sections i.e. employed, not employed and business owners. Majority of the sample is made up of the unemployed (47%) who are retired, homemakers, students or receiving remittances. 44% are employed in casual or salaried work. The self-employed or business owners form the least of the sample (11%).
- **6. Internet access:** The survey being conducted online has limited the respondents to only those with access to the internet hence high smartphone ownership (at 96%).

# Supply side: Characteristics from the iWorker / MSE surveys

There are two groups of iWorker respondents, 15 online and 81 in-person surveys, amounting to 96 in total. The two result sets were not joined because of the differences in their characteristics, time elapsed between the two surveys and differences in sampling methods (the online respondents were recruited online through CINT using selection criteria and the in-person respondents were recruited at commercial centers and place of business (the riders pickup stop). The sample is not representative, and intended to be directional and validated with qualitative interviews.

The iWorker in-person survey with 81 respondents consists of the following breakdown:

- Education: 33% of all respondents have completed primary school, 32% have completed secondary school and 45% have an undergraduate or postgraduate degree. More than half (57%) of the sample are between age 26 and 35, and those above 35 years are 33%.
  3 in 4 are household heads reflecting the slightly mid age nature of the sample.
- 2. The majority of iWorkers are serving consumers directly (79% are in B2C), 10% are serving businesses primarily (B2B), 6% are business to business to consumer businesses (B2B2C), and the remaining 5% are consumer to consumer businesses (C2C). The main industries that iWorkers are in include foodservice and hospitality industry, retail/ wholesale industry and transportation industry.

# 3. Riders:

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- 33 motorbike riders working primarily with platforms such as YegoMoto, Vuba Vuba and eMall and 48 are MSEs.
- The 33 riders are male mainly due to the nature of the work.
- 4. MSEs:
  - 25 of the 48 are female and 23 are male. This makes the overall sample to be slightly more male at a ratio of 2 to 1 (69% males, 31% females).

# Figure 5: Source of livelihood



The respondents were segmented into four categories (Figure 5) based on the nature of their work, i.e., platform workers (riders) and MSEs who are further put into 3 buckets based on their number of employees following the MSME segmentation defined in Rwanda by the NSIR. From the sample of 81 respondents in Table 4, the largest groups were that of the platform workers/ riders and the small enterprises with 4 - 30 employees. There are only two MSE microentrepreneurs and 10 microenterprises in the sample. The survey did not collect data on revenue to further validate the segmentation of enterprises.

	Platform workers (riders)	Solo entrepreneurs	Micro enterprises	Small enterprises	Medium enterprises
No of employees	NA	0	1-3	4-30	31-100
Count and % in the sample	33 (41%)	2 (2%)	10 (12%)	24 (30%)	12 (15%)

# Table 4. Distribution of platforms by size

# Supply side: Qualitative interviews with MSEs and iWorkers

We conducted semi-structured interviews with 21 MSEs/iWorkers to gain in-depth perspectives on their experience, perceived benefits, challenges of engaging in digital commerce transactions and their suggestions for ecosystem's improvement. Interviews were conducted in-person in order to build trust with respondents as many preferred face-to-face interactions.

Interview respondents are broken down with the following characteristics:

1.	52% were Male and 48% Female.
2.	The majority (86%) were business owners, while the remaining 14% were riders: motorbike and cab drivers.
3.	In terms of industries that respondents represented (Figure 6), a third represented restaurants & bakeries (33%), followed by nearly a quarter (24%) who represented retailers of different products including, home and office furniture, shoemaker, toy store, electronic, etc.

Figure 6 below shows the breakdown of respondents by industries they represented.

# **Figure 6. MSEs and Workers Industries**



# **Qualitative interviews with experts**

We also conducted semi-structured interviews with 31 experts from 22 entities, including experts in digital payments, international trade policies, tax, employment and labour issues and individuals operating digital commerce support programs, government agencies and platform owners.

We conducted a combination of in-person and virtual interviews depending on the respondents' preference. Figure 7 below shows the breakdown of respondents and entities by topic covered.



# Figure 7. Experts interviewed by topic

# **3. Research findings**

# 3.1 Online consumers

**Digital presence and behavior** 

From the in-person survey, 96% of the respondents own a smartphone device which 75% of them strongly agreed that their smartphones are the only way they connect to the internet. However, when asked if they have internet access at home, 41% said yes reflecting the low access to internet in the country.<sup>28</sup> Reliable broadband access is required for an iWorker to be able to do iWork and affordable enough to perceive the incentives to do work digitally over a platform. Moreover, usage is limited to social media such as WhatsApp, Facebook and Instagram as depicted from the 92% of the respondents who said in the past 30 days they have used the devices mainly for social media. Other uses reported include sending money (54%), browsing for goods and services (46%) and paying bills (39%) indicating adoption of digital payments albeit at a slow pace.

Furthermore, mobile money payments (83% used their devices for mobile money) are more prevalent compared to other digital payments such as credit cards (17% usage), and bank account applications (36%).

The results are more in line with the Rwanda Finscope survey conducted in 2019/20<sup>29</sup> where only 36% of the population is banked while mobile money accounts ownership is at 61% (see below). Common activities whilst being online include browsing for content (83%), making payments (47%) and contacting customer service (38%). Financial inclusion is at 93% with mobile money uptake at 61%. Regarding usage, 58% have made 3 transactions on a monthly basis but only 23% use mobile money to pay for bills. Saving is high (at 86%) with formal savings at 54%. About 76% of Rwandans borrow, however formal credit is at 22%, and insurance at 17% (having an insurance product, mainly medical).

## **COVID-19 and resilience**

The crisis has to some extent increased digital adoption as reported from the survey, more than half (53%) said they started buying on an e-commerce platform due to the pandemic and 77% are likely to continue doing so. On the other hand, respondents' vulnerability is likely to increase as only 52% have set aside money/ funds for emergencies and close to half (47%) have no assets (example: livestock, bonds) to cash out in case of an emergency. Of the respondents, 55% reported lacking any support to curb the financial effects due to the crisis while reporting a median of 4 weeks of affording to pay for essential goods and services had their households lost all their income. The findings are further reflected in the Rwanda Finscope Survey 2020 where only 40% of the Rwandans reported using financial devices such as savings to cope with financial shocks mostly relying on borrowing from family and friends.

## **E-commerce trends**

The use of digital platforms has increased during the pandemic with most respondents buying goods and services from social media platforms such as Instagram and Facebook (31% buy from social media platforms). The reported increased demand is reported to be due to closure of in-person businesses (30%) and safety concerns (30%), but we have yet to know how this may play out in the longer-term. Among the perceived benefits of using e-commerce platforms include saving time (66%), cross market buying of goods and services (50% said it allows them to buy from international sellers) and saving them money (43%). On the flip side, the challenges for not purchasing online have been reported to be lack of affordability, long delivery and waiting times, fraudulent sellers and the inability to make online payments. Commonly bought products are electronics & media (29%), clothes & accessories (16%), groceries and restaurants (14%).

## E-commerce platforms usage by different population segments

Consumer survey statistics from the online survey aligns with findings from the non-public 2017 report by ITC and DHL with the support of GIZ on "Rwanda: Enabling the future of e-Commerce, Logistic strategy for e-Commerce". This study conducted face to face interviews with 814 Kigali residents. The demographic characteristics of the sample such as age (80% were between age 18 and 39) indicating the highly young population of Rwanda with nearly a balance for gender (51% were male and 49% female). The study showed 65% of the respondents completed high school or less and earned a personal income of below RWF 255,000).

Of the target respondents, 96% owned a smartphone with mobile data being the main mode of connecting online. Furthermore, social media usage was high with regular activities on those platforms being browsing on WhatsApp and Facebook and the lowest activity was buying goods and services. Low awareness levels of online purchase websites were among the challenges impacting usage. Only 27% of the target group had purchased clothes online with clothing being the most purchased category online (42%) followed by mobile phones (31%), and grocery (24%). Overall respondents who purchased online reported average spending for grocery, clothing and cosmetics to be below RWF 50,000 while for this was nearly 3 times higher for electronics, at RWF 50,000 – 300,000. Spending was likely to increase with more purchase frequencies online.

# 3.2 MSEs and iWorkers

# **Reaching iWorkers: MSEs and riders**

From the quantitative survey, we randomly selected respondents for a follow up semistructured interview out of those who consented to partake in the in-depth interview. We were careful to ensure all sectors covered in the quantitative survey are reflected in the qualitative interviews. With that, we were able to interview 21 respondents out of 81 who participated in the quantitative survey. Some interviews were conducted in English while the majority were done in Kinyarwanda. Conducting the survey interview in Kinyarwanda was crucial for the respondent to feel comfortable, able to express himself or herself fully, and for the interviewer to be able to dive deeper into experiences, perceived benefits, challenges and recommendations for e-commerce interventions in Rwanda.

# Digital commerce keeps this microenterprise's lights on and growing

# **Jean Desire**

Age: 31 years old Education: University graduate Marital status: Married with 1 child Location: Kimironko, Kigali



# **Business profile:**

Jean Desire owns a small farm business selling produce, mainly vegetables and fruits, to Kigali residents. The company grows their own vegetables and fruits from a rented 1.5 hectare plot in Kigali. The rent for the plot costs about US\$ 650 per year. At peak time of the year, the company sources from other producers to meet consumer demand. Also, the business imports fruits and vegetables not grown in the country. The business is 20 months old and has a website and distributes its goods nationally, serving customers in high-end residential homes, restaurants and hotels. It receives approximately 200-300 orders per month and there are 10 employees who are paid a flat fee of RWF 30,000 per month.

# **DFS usage:**

Jean Desire has a smartphone and computer. He has a bank account (for his personal use and the business) and mobile money account, which he occasionally uses to pay bills and pay his suppliers.

# **Digital commerce and COVID-19:**

Prior to the COVID-19 pandemic, he was selling fruits and vegetables on several e-commerce platforms in Rwanda such as eMall, Vuba Vuba (10% commission), and Rushfoods (15% commission) and receiving 200 - 300 multiple-item orders per month. As a result of the pandemic, the business has felt a positive effect, since already being on a digital platform meant the business could continue to sell and sell more. The businesses were affected by sourcing from international companies that sell fruit not available in Rwanda and had to operate at 30% of their capacity because of closure of hotels and restaurants and a decline in in-person sales. The business is faring better from increasing adaptation and adoption to e-commerce platforms by consumers. He feels that the government support<sup>30</sup> through ICT Chamber endorsement of digital platforms has increased usage and trust by consumers pushing the businesses sales volume. Jean Desire looks forward to expanding the business by developing a proprietary application to reduce distribution channels, manage deliveries to provide quality products, and hire more employees, including providing them with better benefits.

# His business' challenges to selling over e-commerce platforms:

Jean Desire's business must deal with several challenges. First, digital illiteracy with respect to e-commerce platforms among consumers. It requires educating customers to help them make orders and use the online platforms. Operationally, he is faced with a lack of storage facilities i.e., cold rooms to store larger stock and distribute to a wider population. In addition to storage, he needs to improve product packaging and have a way to maintain and ensure quality of his products. From the management of the finances, he also feels the pain of the high cost from several areas: payment aggregators/ gateways, for which the POS commissions are very high and high commission costs from digital platforms e.g. Vuba Vuba charges 10% + 2% POS charges. He can neither access formal credit as banks do not negotiate with small businesses.

# Digital commerce means steady income for a rider and coping during COVID-19

# Patrick

Age: 36 years old Education: 3 years of secondary school Marital status: Married with 2 children Location: Remera, Kigali



# **Business profile:**

Patrick has been a rider for the past 12 years. He joined YegoMoto four years ago carrying passengers then moved to Yego Moto deliveries during the COVID-19 lockdown in April. His pivot to Yego deliveries was mainly because riders were not permitted to carry passengers but only deliver goods during the lockdown. Patrick owns his moto and appreciates the support, incentives and professionalism brought by YegoMoto platform. He receives a monthly flat revenue of RWF 8,000 fixed-income for his availability to serve YegoMoto deliveries by having his device on standby even if he doesn't receive any order for the whole month. He gets more revenue from orders he receives to deliver goods to various locations in Kigali. Prior to the COVID-19 outbreak, he was generating 5 times his current COVID-19 income. His monthly revenue was RWF 200,000, which translated to a minimum of monthly take-home income of RWF 60,000 to 75,000. During the pandemic, Patrick's monthly take-home earnings have ranged between RWF 10,000 to 15,000, on top of the RWF 8,000 fixed-income guarantee from YegoMoto, almost RWF 30,000 per month.

# **DFS usage:**

Patrick uses his YegoMoto platform and his phone to receive orders, locate addresses, and receive payments using mobile money. He also accepts cash but prefers mobile money. He also uses his mobile money wallet to receive his monthly fixed-income and pay for his bills.

# **Digital commerce and COVID-19:**

Prior to the COVID-19 pandemic, Patrick was a YegoMoto passenger rider. He had his own regular customers and those referred to him by YegoMoto depending on the area he was located. His life had significantly improved because of YegoMoto e-commerce; it made his work more respected, more efficient and trusted by customers. Since the outbreak of the pandemic, Patrick quickly pivoted to YegoMoto deliveries and was able to generate a small amount to help him survive the crisis. He has not experienced growth in revenue but has been able to get just enough to cope with the crisis. He hasn't decided if he will return to YegoMoto passenger delivery yet. He still sees that many people are not yet comfortable using a moto due to the high risk of contracting COVID-19.

# His business' challenges to selling over e-commerce platforms:

Patrick's biggest challenge is the high insurance fee for his moto; he pays RWF 107,106 per year while others who have most recent motos (made between 2015-2020) pay only RWF 87,266. Patrick also believes that the population is not educated enough about the YegoMoto services and are not aware of the benefits of using YegoMoto. He suggests running a campaign to educate and encourage Rwandans to use riders who are registered with YegoMoto for their safety, proper billing system, and ease in locating passenger destinations. He also wishes to see all motos using the meter system, either from YegoMoto or other players. The faster the government enforces the use of the meter system, the faster the population will embrace it and get used to the process.

How riders and MSEs view perceived and actual benefits of e-commerce

# **Riders**

The rationale for riders going online or joining e-commerce platforms was to pivot to delivery as customer pickup has gone down as a result of the pandemic. The research showed that the riders are satisfied with the number of customers YegoMoto pushes to them and has significantly improved their lives. The benefits they felt from using the YegoMoto platform were that they:

- 1. Received a guaranteed monthly income of around RWF 8,000 (if the rider had no customers and YegoMoto meter machine on standby)
- 2. Simplified rider's navigation challenges they don't need to ask customers to help with direction
- 3. Integration with mobile payments has eliminated the need to negotiate on prices and increased transparency in pricing customers don't feel cheated.
- 4. YegoCab drivers are able to access formal credit through transaction reports/history generated on platforms.
- 5. From the quantitative survey done by BFA Global, 35% of the platform workers report being able to work more as a result of being on the platforms while 30% say it saves them time and about a quarter said platform work has allowed them to save money.

On a similar study done by CENFRI<sup>31</sup> on e-hailing platforms as distributors of financial services with a case study of YegoMoto in May 2020, 92% of the drivers (both motorbike and cab) reported currently being able to save more and 41% stated they currently have taken a loan.

# **MSEs**

MSES were able to increase their market penetration and promote brand awareness thanks to e-commerce platforms. They could advertise and help turn followers and viewers to buying customers, and reach customers through multiple channels. The benefits they perceived was that e-commerce:

- 1. Helped them reach out to a bigger clientele, increase sales without cannibalizing other points of sales.
- 2. Provided convenience to customers once they are aware that they can order goods and have them delivered at their homes.
- 3. Helped business survive during the lockdown as they could continue operating and selling even at a small scale.
- 4. Grow the number of customers, especially during the time of COVID-19 when families needed deliveries.
- 5. Helped with marketing, increased visibility, build brand awareness, build customer loyalty, connect customers to the shop, boost sales and enhance their leadership position in the industry.
- 6. Motivated them to produce the highest quality of products because clients were not present to select products themselves.
- 7. Enabled businesses to cover their operational cost during the lockdown.

 Perceived to drive the economy during the lockdown continue to have this effect (today's sales at TicTac, one of the MSE interviewed, are fully generated by e-commerce platforms).

How riders and MSEs view perceived and actual challenges to e-commerce

**Challenges of going online/platform** 

## **For Riders**

Riders are unable to use vehicles for personal trips since movements are monitored and every trip Is counted as a business trip. Low digital literacy for some riders is still a reality and it is difficult for them to use the YegoMoto metering device.

#### For MSES

There are several sets of business and e-commerce challenges that MSEs are faced with in going online to sell.

- Economics. They feel working capital stress since they have to wait for a month to receive payments for transactions through Vuba Vuba. The high commission on sales makes it hard for businesses to put high value goods on platforms. Ultimately, they only select specific items that have good margins on their platform and are easy to carry out. There is a decrease in average order size per customer because when customers order online and receive deliveries, their order is usually very small. When customers shop at the store in person, they usually buy more on average.
- 2. Marketing. Most businesses still acquire the majority of their customers through walkins. They also rely on social media platforms and e-commerce platforms to drive traffic. From the iWorker survey, SMEs listed marketing among the top 3 challenges they are facing. Businesses need to adopt marketing strategies that help change consumer behavior, such as employing mixed offline/online approaches that allow customers to develop trust in what they see online and feel and see in-store, clear return and refund policies to encourage weary customers, and trust marks or certificate of authenticity on the website. Consumers also appreciate invoices as a demonstration of professionalism and perceived authenticity of the vendor.
- 3. Customer literacy. The e-commerce business sector is nascent and there is a huge gap in digital literacy in the population. Businesses will have invested in the online platforms, and promote Google Ads to boost visibility in specific segments, but customers still prefer to have one on one engagements and receive pictures on WhatsApp instead of browsing websites. This behavior may be a result of or is exacerbated by images in websites being outdated or misrepresenting the actual product versus what customers see in WhatsApp images. Customers need education about how to make a purchase online as the digital literacy level is low, making it difficult for customers to place orders correctly. Even then, access to smart devices is limited to consumers to purchase online. Customers are very price sensitive and they look for low quality products instead of investing in quality products. There is also public perception that the quality of products traded online is not good.

- 4. Operations. For food and prepared food providers, not everything on the menu is available on online platforms as offerings have to be restricted to items that can be easily packaged for delivery. There are limited resources in terms of technical skills, storage systems and equipment to support growth in e-commerce platforms
- 5. Management. MSEs struggle to find the right staff who embrace the value, mission, and vision of the organization, resulting in high turnover and increased cost of business. The entrepreneurs themselves may not be trained well enough and/or qualified in their area of business requiring more training to become skilled and able managers of their businesses.

#### Correspondence with the MSE online survey early in the COVID-19 crisis

**Demographics:** Although the online sample is small and too distinct to join with the inperson sample, we provide the summary to demonstrate its correspondence with the data from the in-person surveys and interviews. The sample had 15 individuals who are business owners and platform workers on local platforms such as YegoMoto, eMall and Vuba Vuba mainly residing in Kigali. Most of the businesses are in the arts/entertainment and ICT industries with the median length of operation being 12 months. Of the sample, 61% are serving consumers directly (B2C), about 1 in 3 serves other businesses (34%) and the remaining 6% are consumer to consumer based. For markets, 47% sell to local markets, 27% distribute nationally, and 27% distribute internationally.

**COVID-19 and resilience:** The pandemic has hit MSEs quite hard as 60% reported a decline in revenue due to the crisis noting the main reason to be declining markets (56% of them) and workers being unable to work due to COVID-19 restrictions (22%). Despite having been hit hard, they are quite optimistic in the recovery (67% said they are confident they will recover from the shock). Most of them have no financial obligations (67% said they have no loan) and are very likely to remain open during the crisis (47%). However, the story is different for those in the essential services industry as their revenue has increased during the crisis.

**Digital usage:** Although the rate of adoption is slow, as none of the respondents said they have been online because of the pandemic, 69% who have been digital from the onset have a high usage of digital tools. About 9 in 10 use their phones to run their business with high usage for: taking payments (61%), paying bills such as electricity and water (50%) and paying taxes (39%). Other business functions that are digitally executed include marketing (80%), taking orders from customers (60%) and ordering supplies. Exhibiting similar trends to the consumers, MSEs heavily use social media platforms such as Instagram (50%), Facebook (72%) and WhatsApp (61%) mainly for marketing.

**E-commerce challenges:** Only 4 MSEs have their own website / platform, which has been in operation for less than 6 months from the time of the survey. The rest of the respondents already had websites for at least 6 months, meaning they were already online when the pandemic hit. They reported website performance (slow internet speed), marketing and delivering to consumers to be the biggest challenges for selling online. Other challenging aspects are online payments where consumers are unwilling to pay transaction fees and preference for cash on delivery. Of the four website/ platform owners, three of them do transportation themselves noting lack of standardized addresses, product theft or damage and delays in delivery to be the barriers.

# 4. The enabling environment for platforms to drive livelihoods

# 4.1 Digital infrastructure: Internet Access

Access and coverage of mobile and broadband services Rwanda has made an impressive achievement in terms of mobile network coverage, setting the high bar for the region with 3G network coverage at 94%, compared with a regional average of 76%. Moreover, Rwanda's 4G coverage stands at 97%, enabling access and delivery of mobile broadband services across the country.<sup>32</sup> There are 26 internet services providers operating in Rwanda offering broadband and mobile internet subscriptions.<sup>33</sup>

Despite the success in expansion of digital infrastructure, gaps still remain in terms of adoption and usage of high-speed internet services. As October 2020 mobile phone subscription is estimated at around 84%<sup>34</sup> compared with 0.1% of fixed telephony subscription.<sup>35</sup> Internet subscription is estimated at around 62.3%, an increase of 26.5% from June 2019 when it stood at 51.6%. Majority of Rwandans access the internet through mobile phones. Of the 62.3% subscribers of internet services, 62.1% access through mobile phone and the remaining 0.2% access through broadband. This means, even though the infrastructure for fiber links connection to homes and businesses is there, digital commerce services need to be delivered over narrowband or broadband mobile services in the short-term.

# Barriers to connection rather than reliability of internet services

Even with an increase in internet penetration, active usage is still low. Latest ITU data shows that only 21.8% of Rwandans use the internet.<sup>36</sup> Barriers related to device ownership, digital literacy, and affordability negatively affect uptake and use of internet services, particularly from the low-income micro and small enterprises (MSEs) and workers instead of an unreliable network where there is supposed to be coverage. Latest statistics show low levels of smartphone ownership (14.6%)<sup>37</sup> and digital literacy (8.4%). Low access to smartphone and 4G compatible devices restricts access to basic 2G or slower 3G internet services, which have limited practical application or use beyond voice and SMS based services.<sup>39</sup> Majority of subscribers are connected to EDGE (45.2%) followed by 3G (11.8%) and 4G (5.1%).<sup>40</sup>

#### Affordability of internet services

Moreover, while Rwanda has some of the lowest absolute prices of data bundles in the region, broadband services remain expensive relative to average incomes and fall below global affordability targets. The UN Broadband Commission for Sustainable Development defines the internet as being affordable when 1.5GB of broadband services is priced at no more than 2% of monthly gross national income. On average, a monthly allowance of 1GB of mobile data cost around US\$ 2.3 (US\$ 6.4 in Purchasing Power Parity), equivalent to 7.1%

of gross national income of US\$780 (RWF 744,000) and that for fixed broadband cost around US\$ 81.3 (US\$ 223.3 in PPP), equivalent to 125.1% of GNI.<sup>41,42</sup>

High cost of data alongside low levels of income means that people have to spend very carefully and are less likely to make use of services that add to their cost of buying or selling goods and services, i.e., e-commerce. From our consumer survey, about 86% of the respondents earned an income below RWF 200,000. Also, with low smartphone penetration, there is an opportunity to leverage the available USSD based e-commerce and payment services to ensure a widespread access to both rural and urban populations. For example, Kasha<sup>43</sup> uses a combination of standard e-commerce platform and a sales agent model along with USSD ordering, which doesn't require smartphone access to target women across income segments and meet them where they are.<sup>44</sup>

The government is also intervening to increase smartphone penetration in Rwandan households. In January 2020, the Ministry of ICT and Innovation in partnership with MTN Rwanda and other telecom operators launched the "Connect Rwanda Challenge." The Connect Rwanda Challenge aims to ensure that each household in the country owns at least a smartphone. The program targets vulnerable households and plans to distribute 1,000,000 smartphones to some of the 2.88 million total number of households in the country. The goal of the Connect Rwanda Challenge is to increase digital penetration and promote Made-in-Rwanda products. The challenge is accompanied with training and will leverage the Digital Ambassadors Program<sup>45</sup> to train program beneficiaries to boost digital literacy.<sup>46</sup> However, this intervention needs to be accompanied with a plan to increase households' connectivity to electricity, which is currently at around 56.7% of Rwanda households including 41.3% connected to the national grid and 15.4% accessing through off-grid systems (mainly solar).<sup>47</sup>

# 4.2 Digital infrastructure: Online payments

#### Availability of secure digital payment services

The retail e-payment system in Rwanda has different components, including internet banking, mobile banking, mobile money and cards, among others.<sup>48</sup> A variety of actors are active in the payment space, including banks and non-bank financial institutions.<sup>49</sup> Banks offer platforms for Internet banking (via the bank's online website) and mobile banking (via the bank's mobile app or Unstructured Supplementary Service Data [USSD]) to their customers.<sup>50</sup> As of June 2020, internet banking users increase by 13% to 89,035, who collectively performed 1,451,898 transactions amounting to RWF 2,537 billion (US\$ 2,603 million); meanwhile, mobile banking users decreased by 6% to 1,804,851 and performed transactions totaling RWF 146 billion (US\$ 150 million). The decrease in mobile banking users was mainly due to the deactivation of inactive users and the increase in transaction volumes and values of internet banking is attributed to the accelerated adoption of digital payments during the lockdown to limit the spread of the COVID-19 pandemic. Mobile money constitutes the largest proportion of transactions initiated by digital instruments in Rwanda. The number of registered mobile money customers at the end of 2019 was 15,923,248.<sup>51</sup> During the same year, the mobile money industry facilitated over 105 million transactions worth RWF 648 billion (US\$ 665 million).<sup>52</sup> The high number of subscribers and frequency of transactions, in comparison to the transacted amounts, suggests that mobile money and mobile banking transactions are predominantly performed by individuals as person-to-person (P2P) transfers or merchant/bill payments, while most internet banking transactions are payments done by businesses.

Fintech start-ups are entering the landscape as payment aggregators with infrastructure that supports card-based and mobile payments and are offering competitive services, including bill payments, airtime top-ups and merchant payments.

# Use of electronic digital payments and financial services

The growth in payment digitization is mainly due to numerous policy commitments, including the goals of the Government to shift to a cashless economy and to achieve a nationwide formal financial inclusion level of 100% by 2020.<sup>53</sup> With those goals in mind, the Government has formulated national strategies and implemented regulatory reforms to foster payment digitization and financial inclusion.

As a result, the proportion of the adult population that is formally financially included increased from 68% in 2016 to 77% in 2020, while total financial inclusion (both formal and informal) stood at 93% in 2020.<sup>54</sup>

Since the outbreak of COVID-19, the Government has also conducted awareness campaigns and recommended the use of digital payment channels to minimize the spread of the virus through the exchange of cash. To encourage adoption of digital payment, the National Bank of Rwanda (BNR) worked with financial services providers to implement incentive measures for 90 days to catalyze the adoption and usage of digital payment channels. These include:



Zero charges on all transactions between bank accounts and mobile wallets (push and pull)



Zero charges on all mobile transfers

Zero merchant fees on payments for all contactless point of sale (mobile and virtual POS) transactions Ċ

Increased the limit for individual transfers using mobile money wallets from RWF 500,000 to RWF 1,500,000 for Tier 1 customers and from RWF 1,000,000 to RWF 4,000,000 for Tier 2 customers.

As a result, there has been a significant increase in the level of digital payments in 2020 compared to 2019. The proportion of retail electronic payment to GDP increased from 34.6% at the end of June 2019 to 54% at the end of June 2020.<sup>55</sup> During the same period, the number of Point of Sales (POS) using cards increased by 29% compared to 2018-19 (from 3,046 to 3,929). ATM terminals decreased by 15% (from 390 to 331) due to the adoption of other channels such as agency, Internet, and mobile banking.

Cost of digital payment to merchants and end-users

Notwithstanding the growth in digital payments usage and acceptance, interviews with stakeholders shows low uptake of debit cards (555,243 in 2019) and credit cards (3,687 in 2019), lack of trust on online payments, and high cost of digital payment to merchants and end-users as a barrier for digital commerce transactions to emerge. According to experts and MSEs/iWorker interviews, the high cost of digital payments can be attributed to:

- 1. A high merchant discount rate (ranging between 2.5% to 4.5% of a transaction value) compared to between 1% to 2% seen in more mature markets.
- 2. High international transfer fees. Foreign currency transfers or receiving funds from abroad incur a flat fee starting from US\$ 5. For instance, to receive US\$ 1,000 to an account in Rwanda cost an average of US\$ 35 (3.5%). There is also an additional 0.5% of the value charged per transaction for every withdraw of foreign currency transfer
- 3. Costs of accessing foreign currency accounts. Banks have set a maximum withdrawal amount to US\$ 5,000 per day. This limits account holders when they need more than the maximum amount to facilitate a transaction. As a workaround businesses are forced to withdraw local currency and buy in USD from forex bureaus and lose money in the process.
- 4. High cost from merchants' inability to build their own payment gateways and their reliance on payment processors. Payment processors take a long time (between 3 days and one week) to push funds into business accounts, affecting their working capital.

The industry players are committed to continue supporting the use of digital payments by both merchants and end-users. In particular mobile money merchant payments are free of charge to both the end consumer and the merchant even after relaxing COVID-19 related interventions. Consequently, mobile money has emerged as a preferred digital payment option for domestic transactions but efforts need to be made to lower the cost of payments for other payment instruments, including cards and bank transfers.

Recently, MTN in partnership with MINICT, MINICOM, ICT Chamber and RISA have zerorated the certified e-commerce platforms to stimulate e-commerce transactions during the holiday season.

# 4.3 Physical infrastructure: Transport and logistics

Availability of an efficient transport and logistics system is important to the success of e-commerce, particularly because sales of goods take place at distance. For domestic and international sales, e-commerce typically relies on a developed postal or courier service.

As of June 2020, there are 27 licensed postal, courier operators in Rwanda. The distribution according to the license type of operators follows:

- 1. 15 intra city & domestic courier License
- 2. 1 inbound courier license
- 3. 6 international courier license
- 4. 1 public postal operator license
- 5. 4 regional courier license

International courier license holders dominate the market with 62.9% of total revenues of the sector while the National Postal Office accounts for 29.7% and holders of other licenses remain with 7.4%.<sup>56</sup>

## Cost of transport services is a barrier

The road network and addressing system in Kigali is fairly developed to support logistics and delivery at a small scale around the city. However, interviews with experts and MSEs/iWorkers highlighted a mix of barriers related to costly third-party logistics services, inadequate physical addressing system, lack of integration between e-commerce platforms and logistics services providers, hindering customers' ability to track their package and absence of vertical integration between vehicle transport, warehousing and fulfillment companies. Moreover, transport and logistics costs appear to be a pressing barrier to adoption and usage of e-commerce by end consumers, especially for international shipments. There are limited options for shipping internationally and logistics are expensive. Currently, only Rwanda Air and DHL are viable options as they are faster to deliver than the national post office, which takes at least 2 weeks to deliver goods. While it is more efficient to leverage some couriers such as DHL for international shipping given their quick turnaround time, their costs are prohibitive and non-negotiable. This makes it difficult for international e-commerce to emerge as customers are turned off by a higher shipping cost, which at times is higher than the price of goods purchased.

Similarly, for local delivery, domestic couriers are not reliable and have a lot of delays in delivery but charge high cost, i.e., subscription model with monthly payments even for times when a merchant hasn't used the service. This discourages merchants from using the services. Also, delivery outside of Kigali is costly given the limited option of couriers who are able to support MSEs or e-commerce platform owners with upcountry transport and logistics.

# Fulfillment required, not just transport

As a result, MSEs are finding workarounds to meet transport and logistics needs, including using a combination of their own vehicles and platform delivery system or investing in their own logistics and transport system to reduce costs from third-party services, improve sales from their own websites and steadily transitioning from e-commerce platforms.

The national postal office is uniquely positioned to handle and deliver small parcels at low cost, but requires strengthening its capacity and address challenges such as inadequate fleet capacity, low uptake of postal services, lack of tracking equipment for staff delivering goods and lack of integration between postal services and e-commerce platforms and tracking for fleet management. The Ministry of ICT and Innovation is championing an initiative to modernize the postal office for e-commerce delivery given its presence throughout the country and its potential to address the distribution and delivery challenge.

Also, in an effort to support e-commerce sector in Rwanda, the "Enabling the future of e-commerce in Rwanda" project<sup>57</sup> has established an e-commerce service centre (ECSC) in

Kigali and 24 smaller ECSCs in Post Office locations for consolidation, distribution and/ or pickup of goods in the provinces, with the aim of facilitating access to online services, transport, packaging services and payment services. The e-commerce service centers have the potential to make e-commerce accessible to all in Rwanda, as they would reduce some of the costs associated with e-commerce transactions.

As a result of COVID-19 pandemic, some local players are becoming creative and establishing their brand on logistics and delivery. For instance, YegoMoto accelerated its focus on e-commerce delivery and logistics during the lockdown and continues to do so at a lower cost than the postal office for Kigali. The average delivery cost around Kigali with a motorbike rider is RWF 2,500 (US\$ 2.56) with the postal office and RWF 1,500 (US\$ 1.54) with YegoMoto.

# 4.4 Policy and institutional issues

# **Employment laws and policy**

Rwanda's labour market is largely informal. The proportion of people in formal wage employment is exceedingly low (less than 10% of the labor force is in formal employment and 46% of workers are in the informal sector according to Finscope 2020). There is National Employment Policy (NEP, 2019) providing a broad framework to enhance coherence of policy actions among a variety of relevant institutional actors and stakeholders.<sup>58</sup> NEP also seeks to help achieve the NST1's target of creating 1.5 million productive and decent jobs by 2024. In addition, Rwanda is implementing a national youth skills development and employment promotion strategy. The strategy aims to transform the skills of Rwanda to a middleincome economy. The government aspirations are to shift Rwanda skills towards services and industry and have a more capable workforce across all sub sectors to attain and reflect the middle-income country's economic status. The strategy is built on 3 pillars, including skills development to respond to market needs, employment promotion through promoting MSMEs, and matching job-seekers and employers.<sup>59</sup> Also, the government is aware of the changing nature of work and opportunities to leverage digital platforms to facilitate employment among youths. Several interventions have been put in place that aim to match job seekers and employers. For instance, RDB launched the Kora job portal to address the gap of employer and employee job matching.<sup>60</sup> The platform aims to connect informal workers, freelancers, and gig workers to opportunities. RDB is engaging with different partners from both supply and demand to facilitate the match.

While these policy instruments and interventions are moving in the right direction to support the evolution of platform workers, there is no specific government policy on platform workers. The labour law<sup>61</sup> is silent on platform workers, but clearly differentiate between an employee, self-employed and an independent consultant/contractor. Accordingly, the labor law regulates all employment matters for employees in the private sector, contractual staff in the public sector, interns, apprenticeships, and self-employed persons, and legally permits contract work.

The labor law specifies the obligation and rights of both parties. For instance, an employee must have a contract, must have sick leave, maternity leave, annual leave, circumstantial

leave, authorized absence, entitled to official public holidays, overtime pay, protection against unfair dismissal, access to training, freedom of association and the right to collective bargaining, health and safety rules. Employers must also deduct social security contributions (both pension and health insurance) from employees' paychecks, and they must contribute directly as well. Employers must also deduct an employee's income tax at source (PAYE).

Interview with the Ministry of Public Services and Labour (MIFOTRA) suggested that there is a need to revise the existing labor laws or provide a legal framework for handling the emerging platform workers or digital freelancers that are not covered in the existing labor law. Informally, digital workers are regarded as self-employed independent contractors/ consultants because they bid for work online, get paid based on time spent and deliverables and are given terms of reference like other types of consultants. This classification is in line with what is observed in the market. Digital commerce platforms treat the MSEs and riders using their platforms as self-employed independent contractors. Further, the platforms do not verify whether the individual has actually "formalized" himself or herself as a registered self-employed person; they are mainly interested, via their online onboarding process, to ensure that the services or products sold are of acceptable quality or the rider has appropriate authorization to drive a motorbike or a taxi. The incoming e-commerce policy and e-commerce strategy championed by MINICOM could shed some light on the classification of sellers and workers on digital platforms.

# Legal formalization

Rwanda labor law allows for self-employed persons to register their business names with the Office of Registrar General as Enterprise (or Individual trader) so long as their business income is less than ten thousand Rwandan francs (RWF 10,000 or US\$ 10.26) per day. Beyond this threshold the individual trader must register a company. A company can be registered as an individual enterprise (unincorporated business with a single owner who pays personal income tax on profits earned from the business. This form of registration is popular among individual self-contractors, consultants or small business owners) or as Limited liability companies.

Online registration is free and the process for the registration with the registrar of trade is seamless.<sup>62</sup> Sole proprietors receive benefits from legal registration, including (i) acknowledgement as a legitimate business, (ii) possession of a certificate issued by the Office of Registrar General that can be used to get a business loan, (iii) ability to pay social security contributions for any employees, and (iv) limitation of liability to the person who is the sole proprietor (although this liability is unlimited with regard to that person, as it covers that person's personal assets). For those who register only their business name, the business name registration can be used by institutions such as banks to operate accounts for such businesses, and registration prevents the subsequent registration of another business with the same business name. These benefits are not negligible in the long term, as they add legitimacy to the individuals' overall business activity, thereby reassuring contractual counterparties. In combination with a tax registration, they can support the expansion of business activities through access to bank accounts, loan products, and other financial services.

International trade policy

Given the small size of Rwanda and its low purchasing power, MSEs and iWorkers stand to benefit from selling their goods and services in international markets. Also, international trade policies may affect MSEs and iWorker who are exclusively focused on domestic markets if they allow international firms to enter the domestic market or to import goods for sale in Rwanda. Currently, Rwanda is well positioned to capitalize on its regional blocs memberships and trade agreements held with several partners to support MSEs and iWorkers looking to access international markets. For instance, Rwanda is a member of the East Africa Community (EAC),<sup>63</sup> Common Market for Eastern and Southern Africa (COMESA),<sup>64</sup> and Economic Community for Central African States (ECCAS).<sup>65</sup> Through its EAC membership, Rwanda signed the economic agreement with a commitment to liberalize about 82.6% (in value) of their imports from the European Union, and to gradually liberalize the remainder over a period of 15 years.<sup>66</sup> The EPA agreement has not yet entered into force.

Also, Rwandan exports benefit from duty-free and quota-free entry to the US under Africa Growth and Opportunity Act (AGOA).<sup>67,68</sup> It has also been a member of the World Trade Organization (WTO) since 1996 and has active bilateral trade and investment treaties with the United States,<sup>69,70</sup> Germany (1969), Belgium-Luxembourg Economic Union (1985), and the Republic of Korea (2013). Rwanda has also signed bilateral investment treaties with South Africa (2000), Mauritius (2001), Turkey (2016), Morocco (2016), the United Arab Emirates (2016), and Qatar (2018), that are yet to enter into force.

The trade agreements increasingly include provisions to enable e-commerce or digital trade. For instance, the Single Digital Market Framework for East Africa<sup>71</sup> supports domestic development and cross-border integration of:

A single connectivity market to remove regional barriers in telecom infrastructure and services deployment while simultaneously expanding access to connectivity to all regardless of geographical position of coastal or landlocked countries.

A single data market to facilitate cross-border exchange and processing of data; support regional deployment of data infrastructure; and drive supply and demand for data-driven services and innovation across the region.

A single online market to allow firms, governments and citizens to access and deliver services online, undertake e-commerce transactions and access digital content and information seamlessly from anywhere in the region.

The most important current negotiations which may affect the evolution of digital commerce in Rwanda are the negotiations led by G7, G20 and OECD on digital services taxation and the African Continental Free Trade Area (AfCFTA) implementation. Rwanda hosted the signing ceremony for the AfCFTA agreement in 2018, and was one of the first countries to ratify it. The AfCFTA does not yet have a mandate to negotiate e-commerce provisions (although one may develop). At continental level, the e-commerce agenda is captured in the African Union Convention on Cybersecurity and Personal Data Protection<sup>72</sup> and the African Union Digital Transformation Strategy<sup>73</sup> (2020-2030).

According to expert interviews, while the G7, G20 and OECD led negotiations have stalled in 2020 due to the pandemic, countries have proceeded to impose individual taxes. For example, as of April 2020, the United Kingdom government introduced a 2% tax on revenue derived from provision of search engine service, social media platforms and online marketplaces to UK users.<sup>74</sup> While African countries are not part of these negotiations, this trend is alarming for digital commerce companies operating across the continent. Also, as many African countries, including Rwanda, experience a COVID-19 related revenue decline, they might be searching for alternative revenue sources and the giant digital commerce companies could be an easy target.

# 4.5 Taxation and social benefits

Similar to labor laws, taxation and benefit policy and legislation also incentives employers to either employ or contract workers, and for individuals to either be employed or self-employed. The tax law in Rwanda requires all individuals earning income of more than RWF 30,000 (US\$ 30.78) per month to pay monthly income taxes to Rwanda Revenue Authority (RRA). This applies to both self-employed workers and employees.<sup>75</sup> Enterprises are required to register for Value Added Tax (VAT) if their annual turnover is above RWF 20 Million (US\$ 20,522) or RWF 5 Million (US\$ 5,131) in three consecutive months in the preceding quarter of the year.<sup>76</sup> This is applicable to all taxable activities, so where a self-employed makes taxable supplies to meet the above threshold, he/she is required to register as a taxable person, and charge VAT on all taxable supplies and pay the VAT charged to the RRA.

The requirement to register and then file and pay income tax and VAT can place a considerable administrative burden on self-employed people. However, an interview with RRA indicated that any registered taxpayer-individuals (self-employed), MSMEs, and large corporations can declare and pay taxes online, which streamlines the process. With exception of YegoMoto/ YegoCab, which collects taxes from its drivers on behalf of the government, digital commerce platforms do not report to the RRA on payments to their MSEs/iWorkers or make any deductions on their behalf. However, this can be a means of easing the administrative burden of formalization for self-employed people working on digital platforms.

The rate of income tax for self-employed workers and employees is the same, and therefore the only difference is in the obligations relating to the person who affects the payment to the RRA. With regards to an employee, the employer is required to deduct and make the tax payment on behalf of the employee. An independent contractor (including a self-employed person), on the other hand, is required to register with, deduct and remit his/her own monthly taxes to RRA. Also, according to the pension scheme and long-term savings scheme laws<sup>77,78</sup> employers are required to withhold 3.3% of the employee's gross monthly salary and contribute an additional 5.3% of the gross monthly salary of the employee into

the Social Security scheme for the benefit of the employee. Social Security contributions are, however, optional for self-employed persons and where an employer engages an independent contractor, he/she does not need to contribute an additional 5.3% of the gross monthly fees of the contractor for payment into the scheme for the benefit of the contractor. All else being equal, this payment "wedge" may lead to employers favoring the hiring of independent contractors.

While the income tax rates for employed and self-employed people are the same, there are special tax rates for registered small businesses (including sole proprietors) as an incentive to formalize. These include:

- 1. A business that does not reach an annual turnover of RWF 2,000,000 (US\$ 2,052) is exempted from taxes
- 2. Micro-enterprises pay the flat amount of tax based on their annual turnover (table 5)

# Table 5. Tax rates by turnover range

Annual turnover range	Fixed annual tax amount
RWF 2,000,000 (US\$ 2,052) to RWF 4,000,000 (US\$ 4,104)	RWF 60,000 (US\$ 62)
RWF 4,000,001 (US\$ 4,104) to RWF 7,000,000 (US\$ 7,183)	RWF 120,000 (US\$ 123)
RWF 7,000,001 US\$ 7,183) to RWF 10,000,000 (US\$ 10,261)	RWF 210,000 (US\$ 215)
RWF 10,000,001(US\$ 10,261) to RWF 12,000,000 (US\$ 12,313)	RWF 300,000 (US\$ 308)

- 3. Small business companies pay a lump sum tax of 3% on annual turnover, but have an option to follow the corporate tax system that applies to large businesses upon informing RRA.
- 4. Businesses are required to register for VAT if their annual turnover is above RWF20 Million (US\$ 20,522) or RWF5 Million (US\$ 5,131) in three consecutive months in the preceding quarter of the year.
- 5. Agribusiness is VAT exempted which is a big relief, only pay for the city cleaning fee and the trade license fee.
- 6. SMEs that fulfil at least two of the three following conditions: net capital investment up to RWF70 Million (US\$ 71,828), annual turnover up to RWF 50 million (US\$ 51,305), and up to 100 employees; are exempted from trading license tax during the first 2 years following their establishment.

The government has also simplified tax payment for SMEs to quarterly payments as opposed to the monthly declarations. Also, a casual laborer is subject to tax on the special rate of 15%. However, in computing casual laborer's tax, an income not exceeding thirty thousand (RWF 30,000, or US\$ 30.78) per month is rated at zero % (0%). Finally, there is also an implicit penalty

for contractors if they fail to register for tax, as all tax-registered entities must withhold 15% of the value of payment for services to individual contractors who are residents. The same withholding rate is applicable to performance payments made to a craftsperson, a musician, an artist, a player, sports, cultural and leisure activities irrespective of whether paid directly or indirectly.

Tax incentives withstanding, interviews with MSEs/iWorkers have shown that while registering and starting a business is easier in Rwanda, the tax burden is still high, as shown on table below:

#### Table 6. Taxes paid by iWorkers

	Rider	MSEs
Taxes	Motos and Cabs pay the same flat income tax of RWF 18,000 (US\$ 18.47) per term. This is very high for motorbike riders as the income generated is much lower than taxis/ cabs. Annual tax to RRA (Patent): RWF 10,000 (US\$ 10.26) Cab riders find their taxes reasonable, license tax of RWF 50,000 (US\$ 51.31) per year and quarterly income tax of RWF 22,050 (US\$ 22.63).	Businesses experience double taxation; they pay VAT on importation then VAT on sales. The refund of VAT on importation takes almost 1 year or more before it is refunded. This is a huge loss for businesses.
Other fixed costs	Riders have to pay several fixed fees and have no other choice than abiding by the rules. License fee, Income tax, and Insurance fees for motos are extremely high. High insurance for Motor/Riders. Motos pay between RWF 80,000 (US\$ 82) to RWF 100,000 (US\$ 102.61) of insurance depending on the year of manufacturing of the motor. Motos that were made 5 years ago and above pay higher insurance fees – almost RWF 100,000 (US\$ 102.61) per year Pay almost RWF 60,000 (US\$ 61.57) to get authorized to operate by RURA Cooperative/Association of Moto charges a monthly RWF 5,000 (US\$ 5.13) to each rider	

The provisions of the Rwandan tax code and the requirement to make contributory social insurance and social security payments are therefore clear, and there are even benefits for self-employed people and small businesses, especially if registered. However, the tax code and pension law, particularly the general lack of benefits associated with self-employment and contractor workers arrangements. In particular, iWorkers have expressed a desire for job security and access to benefits (health insurance, paid leave, etc.) and the idea of contract work is unsettling and frightens young job seekers given the lack of benefits.

# 4.6 Other legal and policy issues affecting digital commerce

# Legal and regulatory framework

E-commerce intersects with several other themes including, consumer protection, cybersecurity, data, digital identity, ICT, payments, among others. The legal and regulatory frameworks affecting all these other areas have implications on digital commerce. While there is no licensing framework specifically for digital commerce platforms, other laws

affecting e-commerce are in place, including cybersecurity regulations (2020),<sup>79</sup> privacy and data protection regulations (2020), ICT law (2016),<sup>80</sup> competition and consumer protection (2012),<sup>81</sup> electronic messages, electronic signatures and electronic transactions (2010),<sup>82</sup> and electronic fund transfers and electronic money transactions (2010).<sup>83</sup>

In particular, the key regulators are the national bank of Rwanda with the mandate to regulate all the financial sector players and all financial transactions. For instance, payment services providers have to be cleared by BNR to ensure they have proper technology and license before operating. RURA regulates telecommunication companies that facilitate e-transactions. RURA is working closely with the police in enforcing the National Cyber Security Policy 2015 hence protecting citizens against cybercrimes.

However, none of the aforementioned legal instruments recognizes uncommon features and intricacies of e-commerce even though e-consumers face different challenges compared to consumers on traditional marketplaces. For instance, the competition and consumer protection law does not disjointedly recognize e-commerce and therefore there is no legal clarity on protection of e-consumers. There is a need to reform some laws to reflect the most recent advancements in the e-commerce ecosystem and provide a sound regulatory framework that can easily interface between the physical and the digital space. For instance, conflict resolution mechanisms for e-commerce are absent and there is no framework to protect consumers in terms of return of goods if something goes wrong. In absence of legal instruments, there are workarounds to build trust and protect consumers against any cyber threats while conducting e-commerce business. For instance, the ICT Chamber certifies all e-commerce platforms after they pass inspection and due diligence. The e-commerce platforms have to be registered with the Private Sector Federation (PSF).

The Ministry of Trade and Industry has started developing an e-commerce policy with the support of UNCTAD. The development of e-commerce policy is happening concurrently with the finalization of e-commerce strategy. The development of these policy instruments is a move in the right direction as they would help to highlight some of the key legal and regulatory instruments that would need to be updated or put in place to provide assurance and protection for e-commerce transactions.

In addition to laws and policies in place or in development, the Rwandan government is also committed to drive the e-commerce agenda as demonstrated by some of the initiatives it has undertaken. For instance, the launch of Irembo, a portal where more than 100 e-Government services are obtained on a single window, and the Electronic World Trade Platform (eWTP) in partnership with Alibaba, signals the political will at the highest level to drive the digital economy agenda in Rwanda.

# 4.7 Digital commerce companies in Rwanda

## **E-commerce categories**

ICT Chamber (Figure 8) published and endorsed 34 e-commerce companies in October 2020, to increase awareness and trust in e-commerce. The companies can be categorized into the below categories relevant to e-commerce: groceries delivery, online retail, food delivery, online marketplaces, electronics, transport.

From an investment standpoint, the Briter Intelligence database only generates 20 e-commerce companies operating in Rwanda that have raised a total of US\$ 17 million by venture capital validating the very early nature of the e-commerce sector to date. The database includes companies such as Carisoko, EquaLife, Get It Rwanda, HMart, Iabiti, iduka, IsokoNow, Kasha, Lendable, Made Africa, Mambo, Ndio, Olado, Park & Rick, Pikko Stores.



## Figure 8. E-commerce platforms by category

# **E-COMMERCE PLATFORMS BY CATEGORY**

# GROCERIES, FOOD & BEVERAGES

www.hehe.rw www.murukall.com www.parkandpick.rw www.store2door.rw www.tuma250.com www.kimironkomarket www.drivemate.rw www.kigalifamm.com www.kigalifamm.com www.huza.polynnetskabs.com www.zukkinibaskey.com https://play.google.com/store/ apps/details? id=com.murugo

https://kskymarket.com

# AGRICULTURE

www.ehaho.rw www.shambapro.rw www.kungahara

#### CORSS BORDER SHOPPING

www.eguiro.com www.inumastore.com

#### RESTAURANTS

www.vubavuba.rw www.rushbusiness.com

#### **ELECTRONICS & ICT**

www.ihaha.rw www.kigalidiscount.com www.nyerelatech.com www.tuma.rw

#### FASHION, BEAUTY & CRAFTS

www.imigongo.rw www.kigalimart.com ww.w.kigure.rw www.uhahe.com

## **GENERAL SUPPLIES**

www.olado.rw www.pikkostores.com www.umujvi.com www.iduka.rw www.email.rw www.egura.com www.kstorez.com www.onebasket.rw www.guhaha.com www.guhaha.com www.mwakire.com

#### HEALTH & PERSONAL HYGIENE

www.kasha.rw

# TRANSPORT & LOGISTICS

www.yegomoto.com www.twohereze.rw www.dropp.onebasket.rw

#### www.dropp.onebasi www.shop.mart.rw

The 2019 i2i study (Figure 9) of African digital platforms compiled 47 companies in Rwanda, and especially highlights the presence of non-African global digital platforms, compared to the 8 homegrown solutions. The most common type of platform is for shopping, but also includes freelance work, logistic/courier services, rentals, e-hailing, and other.

# **Figure 9. Key platform characteristics**



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# 5. iWorker country diagnostic scoring and analysis

Based on the analysis on the previous sections Table 7 below summarizes the results of scoring shown in Annex for each of the main enabling conditions. The absolute values on a scale of 1 (not enabling at all) to 5 (highly enabling) matter less than the relative ordering of the areas in so far as lower scores point to more binding constraints for attention. Similarly, the traffic light colors represent the severity of the constraints, i.e., red indicates a severe binding constraint, yellow is for a moderate severe binding constraint and green is for a mild severe binding constraint. The severity of binding constraints points to areas requiring attention to unlock digital commerce and its potential to transform livelihoods in the short term.

# Table 7: Summary of iWorker diagnostic scores for Rwanda

1.	Internet access is widespread, reliable, and affordable for iWorkers	3.5
2.	iWorkers can pay and receive online micropayments securely, quickly, and cheaply	2.25
3.	The legal environment is clear with respect to digital contracts, and open to flexible work forms with one or more online sources	4
4.	The tax code is clear, and the tax burden does not disincentivize self-employment	3
5.	iWorkers perceive clear benefits from formalization and receive actual benefits	2.8
6.	Digital commerce platforms which connect iWorkers to work are active and growing	3
	OVERALL SCORE	3.1

The rationale behind the scoring for each segment of iWorker diagnostic is summarized below:

- 1. Internet access scored 3.5 because even though access to it is widespread, it is not affordable to the majority of low-income MSEs/workers, notwithstanding that Rwanda has the cheapest internet packages across East Africa. Also, findings from qualitative interviews suggested that internet connectivity is unstable and so do some of the e-commerce platforms.
- 2. Digital payment achieved the lowest score (2.25) because while MSEs/iWorkers can access channels to make and receive online micropayments, merchant discount rates are very high, increasing the cost of online payment. The high cost of digital payment incentives merchants to prefer cash transactions and consequently cash-on-delivery is the most common form of payment. While cash-on-delivery is not bad on its own rights, it places a limit on the value of a purchase and adds to the merchant's risk since there is a significant possibility that a sale may not happen if pre-payment has not been made. However, the prevalence of cash-on-delivery could also be a reflection of low trust on

digital transactions whereby buyers want to first feel and touch the ordered goods before they complete a transaction.

- 3. While the law is silent on platform workers and there is no government policy on the evolving nature of work. However, the law and practice are fairly clear on the situation of self-employed contractors, a category that iWorkers currently fall under. It also provides a clear framework for the formalization of self-employment, and it does not appear to restrict or limit self-employment or contract work. For these reasons Rwanda scores 4 on the legal environment.
- 4. The law is silent on platform workers tax code. In absence of legal guidance these workers are treated as self-employed independent contractors for tax purposes. With this categorization, the tax code and entitled benefits are clear. Self-employed individuals and businesses have some benefits from registering themselves. However, the fact that they need to contribute towards their own benefits makes the digital platform work unappealing to some individuals. As a result, Rwanda scores 3 on the tax code and its implications to platform workers.
- 5. Job security and access to benefits (health insurance, paid leave, etc.) are still very important to job seekers and the idea of gig work frightens most of them given the lack of benefits. From qualitative interviews, MSEs/iWorkers also expressed concerns on the high tax burden and fixed costs associated with formalization. This could act as a barrier to growth of platform workers and scores 2.8.
- 6. Digital commerce is nascent but platforms are active and growing. It scores 3 on the diagnostic framework. The market is dominated by home grown platforms that focus on selling and delivery of essential goods, including food and grocery. e-hailing /transport is not as widespread as food and grocery. International platforms that operated and exited the market transferred the necessary skills to catalyze the e-commerce ecosystem. A few platforms with some traction in the market are founded by ex-Jumia employees.

Therefore, the table and summary above points to the cost for adopting digital payments and lack of clarity on a career path/benefits to catalyze and sustain the interest of iWorkers as the biggest constraints in the ecosystem. Addressing this would require the flexibility of digital commerce platforms to be integrated with skills development approaches. As a result, MSE/iWorkers' income may grow over time, in line with their reputation, skills and productivity. These are the potential benefits of digital labor which are currently inaccessible to many informal-sector workers.

# 6. Recommendations

# **6.1 M4D Recommendations for AFR**

Rwanda has managed the pandemic well, having a severe lockdown at the beginning (starting in March for 90 days) which has kept the illness and death rates low. Nonetheless, the country has been severely affected by the economic consequences of the worldwide crisis, including drastic reductions in tourism and travel revenues, and disrupted markets for agriculture. Despite these disruptions, the latest IMF and government projections indicate that Rwanda will have 2% GDP growth rate for the year as the economy bounces back from the sharp dip in Q2 (12.9%).<sup>84</sup>

We also considered the effect on the macro economy of an accelerated move to digitization of financial and economic transactions. We would expect a positive effect on efficiency, with increased opportunities outside of agriculture. Many of these opportunities will be facilitated by digital commerce and we expect - in line with our prior work on iWorkers that digital commerce will be an increasing driver of employment. Although we do not have data to indicate what happened after the lockdown ended, we understand that activity has fallen again, probably close to pre-lockdown levels. Nonetheless this natural experiment has shown the Rwandan public is able and keen to use digital financial services. But it also highlights the price sensitivity of the Rwandan market, which despite its high level of digital capability, remains at a low income level.



# Figure 10: The forces at play for interventions

The recommendations are grouped into three parts, taking into consideration AFR's strength, capacity, reputation and strategic direction in the next five years. They also highlight areas where AFR could use its position in the market to convene the ecosystem facilitators, including government agencies, the private sector, and international organizations and broker partnerships to unlock the potential for digital platforms to provide livelihoods to the growing number of people (and especially young people) in Rwanda and consider the forces at play that will influence how digital commerce may evolve.

## 1. Embedding digital financial services to enable MSEs and iWorkers

AFR has an opportunity to leverage its strength in promoting access and usage of digital financial services in Rwanda to support acceleration of innovation in digital services and beyond normal financial usage with new and improved solutions that offer pathways to livelihoods for MSEs/iWorkers. This would require AFR to convene the broader ecosystem (regulators, policymakers, traditional FSPs, FinTechs and digital commerce platforms) and lead in brokering partnerships that would result into designing products and services that empower MSEs/iWorkers by growing their businesses and income. Specific interventions in this area could include:

- 1. Support FSPs to pilot and scale asset-based financing that leverage PAYGO models to enable workers to invest in new equipment that help them remain productive while maintaining a lower cost of operations. PAYGO models are suited to iWorkers and MSEs. Allowing for repayment flexibility,<sup>85</sup> such as paying partial payments, skipping payments or refinancing payment terms without penalty, that ultimately ends up in an acquired asset that accommodates the unpredictable income flows of workers in the gig economy or informal sector. In our work with PAYGO solar and water providers, these models have been demonstrated to improve the repayment ability of low-income consumers while spurring the adoption of mobile money by excluded populations. PAYGo for productive assets has the potential to unlock opportunities for some of the platform workers such as riders, to own assets and grow their income. Currently, the majority of motorcycle riders rent their bikes and split the earned income with the bike owners. Owning their bikes would enable them to retain a portion of income that would have been a rental fee. Also, a motorcycle older than 5 years pays much higher insurance than a newer one. With access to financing for assets, riders could have an option to resale their bikes after every five years or employ other young people once a rider has a fleet of motorcycles. For example, YegoCabs has demonstrated this aspect by partnering with financial institutions to provide vehicle loans to its taxi drivers. Taxi drivers can purchase a vehicle and pay for it in installment and eventually own the vehicle once the full amount is paid.
- 2. Catalyze the development and growth of supply chain financing to help MSEs meeting their working capital needs or access credit for sourcing input / in-kind credit. AFR could work with a larger set of value chain providers and financial institutions to create partnerships for financial linkages that enable MSEs to access financing such as: in-kind credit, MSEs business lines of credit, or revolving line of credit for purchasing inventory<sup>86</sup> or investing in productive assets. Developing partnerships financial linkages along the supply-chain would also encourage the digitization of MSEs that inform the sales inflows and outflows of businesses as MSEs would find value in keeping digital records to access

credit for working capital. This is the hypothesis of value-add by digital commerce platform companies for MSEs. Through MSEs transacting in the digital ecosystems of the platforms, providers would have more visibility into the business activity of MSEs, to which they would be able to extend credit, that MSEs would otherwise not be able to access outside of the platform ecosystem.

3. A wider set of providers, especially fintech companies, could offer more than digital payments and digital credit to improve the resilience of owners and workers through microinsurance products, especially for e-hailing providers who face several types of risk.<sup>87</sup> As independent type contractors and workers outside formal employment benefits, business owners and workers have no or few protections from shocks or downturns, much less benefits, such as social security, medical insurance, paid sick leave, or retirement. Portable type benefits, both financial and social, specifically for micro-entrepreneurs and iWorkers that enable them to automate a part of income and/or receiving contributions toward savings could be a valuable coping mechanism for platform workers. For example, an integration of digital commerce platform to Ejo Heza,<sup>88</sup> a long-term savings scheme could make it easier for MSEs and riders to contribute towards their retirement plan. This would also incentive young people to view platform work as a viable career option especially because stable income, the perceived job security and access to benefits are the main attractions for young people to seek fulltime formal employment. Also, this expands market opportunities for fintech companies beyond digital payments services space, which is currently saturated in Rwanda.

# 2. Partnerships

- 1. With platforms.
  - At the intersection of financial services and the real economy, partnerships are critical for connecting parts of the digital commerce value chain to be more inclusive and of more value to MSEs and platform workers. YegoMoto dominates the market, and has a bigger role to play to incentivize platform workers by partnering with or offering features that mimic stable and secure salary structure and employerlike benefits for platform workers. From our qualitative interviews, we learned the riders were provided with a minimum guaranteed salary during COVID-19, and the pivot of the service to provide deliveries instead of passengers kept some riders afloat. AFR could explore partnerships with YegoMoto in particular, but with other platform owners to incentivize reducing the commission costs. The research showed that riders face high fixed costs and the commissions were viewed as tolerable as long as they were able to generate enough income. In particular, in the e-hailing sector, riders and drivers are increasingly squeezed in the race to the bottom for platforms to compete on price. Also, for MSEs, the fixed registration fee to onboard to an e-commerce platform is a hindrance to some MSEs. There is an opportunity for AFR to partner with digital commerce platforms and subsidize this one-time registration fee to make access to digital platforms affordable to all.
  - AFR could also explore partnerships with platform companies to foster and increase the capacity building of riders and MSEs to do business via digital and for digital commerce adoption. The research demonstrates that e-commerce is still quite new in Rwanda for which more awareness and trust need to be

created but also digital literacy training to be provided for new and existing users. Platform companies likely have the availability of resources to invest in developing specific markets, conducting marketing and demand generation campaigns, as well as deploying agents in specific markets as customer support and customer facing points of contact. Partnerships with organizations such as AFR could avail additional resources to support awareness raising campaigns and unlock the latent demand for e-commerce services and equip potential iWorkers with essential skills needed to transact digitally. For instance, there are opportunities for AFR to broker partnerships between platform companies and digital skills training programs such as Harambee<sup>89</sup> or Digital Opportunity Trust<sup>90</sup> to equip iWorkers with language, work readiness and digital literacy skills they need to thrive.

- 2. With payment processors. On the other hand, fees and commissions were more onerous for merchants, who also have to manage a host of fees. In particular, AFR should explore how to work with payment processors to reduce rates. The ideal commission rates on payment transactions should not be beyond maximum of 1.5% (for both POS and transfers). Possible approaches could be to:
  - Catalyze transaction volumes either through subsidizing transaction fees to generate traction or through capping the merchant discount rate (MDR). UNCDF and MINICT have partnered and launched a six month pilot project aiming to subsidize the MDR and the one-time MSE onboarding fee to digital commerce platforms. An assessment at the end of this pilot project would provide insights on the impact of subsidies to digital commerce transaction volumes and value and help AFR evaluate the viability of this intervention.
  - Support fintech startups to expand solutions offering more competitive merchant payments models. The fintech innovation hub implemented by the ICT Chamber has already identified fintech startups in its first cohort such as Raisin Ltd<sup>91</sup> and HeptaPay<sup>92</sup> that offer innovative payment aggregation services at a lower cost to the merchant but need support on customer acquisition for retail expansion strategy.
  - Fast track Rwanda National Digital Payment System (R-NDPS) project to accelerate the digitization of retail payments across a range of digital channels and instruments in a cost-effective and efficient manner.
  - Negotiate offering of third-party logistics/payment processors for MSEs especially because banks do not provide payment gateways to individual businesses merchants are obligated to work with third-party aggregators.
- 3. With logistics players. More needs to be done on tackling the aspects of reach and reliability of delivery and transport services, locally and internationally.
  - Shipping internationally is very costly and digital commerce cannot scale until exporting becomes more affordable. For example, orders are cancelled because the cost of shipping goods is higher than the goods themselves. There is opportunity to work with Rwandan Postal Services for standardization of cross-border trade that brings down cost or coordinate with the "Enabling e-commerce in Rwanda " project on expansion of domestic e-commerce service centers or international fulfillment centers to streamline the fulfillment process and bring down costs. AFR could explore partnerships with companies that are also connecting and making global supply chains more efficient by bringing modern technology and employing data

to reduce costs. Jetstream<sup>93</sup> is one logistics player in West Africa that is simplifying shipping for suppliers and exporters.

On the local level, the addressing system has yet to work for all parts of Kigali, secondary cities, and in rural areas. Riders have to be in constant contact to deliver packages resulting in time lost and effort expended due to lack of a standard addressing system. AFR could explore partnerships involving companies such as Copia Global,<sup>94</sup> which leverages shops in local communities, or existing agent networks as purchasing and pick-up points, as models to explore as logistics workarounds to deepen reach in last-mile communities. There is also an opportunity to leverage mobile ID for last mile delivery with products such as Mpost,<sup>95</sup> an innovative product that allows customers to access Postal services from anywhere through their mobile phone.

## 3. Policy

There are multiple initiatives, both government-led and donor-led that seek to advance digital commerce in Rwanda. Many of the recommendations for growing the digital commerce ecosystem require policy action for the impact to be felt for all Rwandans. Current ICT policy and its legal aspect focus on ICT. However, an e-commerce strategy and policy are under development. In coordination with other stakeholders, AFR may seek to influence and advise on the framework of the policy and strategy and its implementation at the district level such that e-commerce can be more inclusive and far-reaching across the country. AFR could scope and build relationships with MINICOM and MINICT, the two ministries leading the e-commerce policy and strategy development as well as the technical working group committee on e-commerce to track the progress of policy and strategy development and contribute to ensure all the necessary legal aspects of e-commerce are covered.

AFR should also build on its ongoing partnership with ICT Chamber in the upcoming iHuzo program to convene policymakers to help coordinate programs and share lessons between all these initiatives while reducing any replications in market system building. Below is a list of areas where AFR should be working with partners and engaging policymakers for the creation of policy or for advising the creation of policy that addresses specific challenges and leverages opportunities for digital commerce:

- 1. Uncovering latent demand for digital commerce services through awareness campaign and supporting digital literacy interventions to the community
- 2. Promoting mechanisms for reinforcing trust, such as:
  - Strategic communications campaign to increase trust in digital commerce and awareness of opportunity for MSEs and riders.
  - Reinforcing standards and monitoring quality of products and of sellers, through a trust mark or certificate for online sellers.
  - Advocating for customer recourse mechanisms for e-commerce in the updated consumer protection law to provide clarity on the responsibility and expectations when an e-commerce transaction has gone wrong.
- 3. Improving the addressing system in Kigali, and in secondary cities and in rural areas.

- 4. Continued promotion of e-payments and increasing adoption, as well as capacity building programs that increase the digital literacy of end-users to access e-commerce websites, make digital payments and online transactions.
- 5. Support innovative solutions to MSEs and riders on platforms that mimic benefits availed to full-time workers in formal employment such as enabling automatic contribution to retirement plans or policies to shift tax reporting responsibility from individual SMEs or workers to platform owners. For instance, YegoMoto withhold taxes from riders on behalf of the government and submit to RRA on riders behalf on a monthly basis. This removes the administrative burden of tax reporting from the rider and improves tax compliance and revenue to the government.

# Annex

# iWorker Diagnostic for Rwanda

This is the underlying framework which has supported the overall scoring described in the text. Note that the weighting in this scorecard is uniform across the main factors. The scoring is generally calibrated to African standards where these are available, on a scale of 1 = very low enablement to 5 = very high enablement, with a score of 3 implying around the African average.

	Category/ factor	Weight	Scoring	Sub- score	Overall category score
1	Internet access	16.70%			3.5
1.1	Widespread	33%	Available throughout country:5; in urban areas:3; available: 1	4.5	
1.2	Reliable	33%	In areas where available: no problems reported with connection: 5; some problems: 3; major problems: 1	3	
1.3	Affordable	33%	Much cheaper than African average: 5; in line with African average: 3; much more expensive: 1	3	
2	Digital payments	16.70%			2.25
2.1	Secure digital payments available	25%	% of adults making digital payments in line with African norm=3; higher= >3; lower: below 3	3	
2.2	Can receive digitally from local payers	25%	P2M and P2P functionality is possible on all MM: 3; interoperable payments possible: 4 or 5; low P2M and P2P functionality in standard MM: 1 or 2	2	
2.3	Can receive digital from international clients	25%	5: possible from all major card schemes and mobile money; 3: mobile money & PayPal only with international linkages; 1: not possible	2	
2.4	Cost of receipt and payment is low	25%	3: merchant fees charged for digital in line with African norms; 4,5: cheaper; 1,2: more expensive	2	
3	Policy and legal environment	16.70%			4
3.1	Rwandan law is enabling for contract work	20%	Contract work prohibited: 1; contract work is legal but many difficulties to undertake; 2; contract work is legal but some difficulties to undertake: 3; contract work is legal and few difficulties to undertake: 4 contract work is legal and easy to undertake: 5	5	
3.2	Employment law is clear about boundaries between employment and contracting	20%	No clear boundaries/ not dealt with by legal framework: 1; Some rules exist but unclear as to application: 2; Many rules exist but application is somewhat unclear; Main rules are clear but some ambiguity at fringes: 3; Distinction is very clear: 5	5	

	Category/ factor	Weight	Scoring	Sub- score	Overall category score
3.3	Contractual environment is enabling for online transactions	20%	Contracts for online transactions prohibited: 1; Contracts for online transactions are legal but many difficulties to enforce/ ensure validity; 2; Contracts for online transactions are legal but some difficulties to enforce/ ensure validity: 3; Contracts for online transactions legal and few difficulties to enforce/ ensure validity: 4 On- line work is legal and easy to enforce/ ensure validity: 5	3	
3.4	International trade law & policy enables cross border digital work	20%	Discourages cross border digital work1; not clear-2; neither encourages nor discourages3; encourages cross-border digital trade-4; encourages and is clear on cross border-5	3	
3.5	Process of drafting new laws includes consultation with sector.	20%	No1; limited-2; some3; solicited and invited-4; solicited, invited and responded to -5	4	
4	Tax environment	16.70%			3.0
4.1	The tax code and social contribution rules are clear in respect of self-employment	33%	No clear boundaries/ not dealt with by legal framework: 1; Some rules exist but unclear as to application: 2; Many rules exist but application is somewhat unclear; 3 Main rules are clear but some ambiguity at fringes: 4; Distinction is very clear: 5	5	
4.2	The tax code and social contribution rules incentivize the proper classification of workers	33%	The tax code and social contributions rules greatly incentivize misclassification: 1; The tax code and/or social contributions rules incentivize misclassification : 2; The tax code and social contributions rules have no effect on classification; 3, The tax code and/or social contributions incentivize proper classification: 4; The tax code and/or social contributions greatly incentivize proper classification: 5	2	
4.3	The tax code and social contribution rules incentivize self-employment	33%	The tax code and social contributions rules greatly disincentivize self-employment: 1; The tax code and/or social contributions rules disincentivize self-employment : 2; The tax code and social contributions rules have no effect on self-employment; 3, The tax code and/or social contributions rules incentivize self-employment: 4; The tax code and/or social contributions rules greatly incentivize self-employment: 5	2	
5	iWorker perception and reality of benefits	16.70%			2.8
5.1	iWorkers are aware of potential for digital work	25%	Widespread awareness among candidate groups of opportunity: 5'; no awareness at all: 1; some awareness in niches: 3	3	

	Category/ factor	Weight	Scoring	Sub- score	Overall category score
5.2	iWorkers perceive benefits of digital work	25%	A high proportion of potential iWorkers are able to name benefits and find them appealing: 5; scaled down for proportional awareness to 1=none or very low proportion can	4	
5.3	iWorkers receive portable benefits from independent work	25%	Portable benefits widely available: 5; some platforms provide 3: none provide 1	1	
5.4	iWorkers receive training on digital commerce skills and tools	25%	1none; 2limited; 3some available; 4commonly available; 5available and subsidized	3	
6	Digital commerce platforms	<b>16.70</b> %			3
6.1	Diversity of types	25%	Limited local only; number in each category local: 2; local and international are present; local and international across most categories: 4 or 5	3	
6.2	Platforms are growing	25%	Total number of platforms lower now than last year: 1; about the same: 2; somewhat higher: 3; much higher: 5	5	
6.3	Platform barriers encountered to growth	25%	Platforms encounter: numerous material barriers to their operation and expansion: 1; some material barriers: 3; few barriers 4; no barriers: 5	1	
6.4	E-commerce readiness index (UNCTAD)	25%	Well below African average: 1; below African average: 2; Average: 3; above average 4; substantially above average	3	
Overall weighted iworker score		100%			3.1

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<sup>33</sup> "Statistics Report for Telecom, Media and Broadcasting Sector as of the second quarter of the year 2020", Rwanda Utilities Regulatory Authority (RURA), June 2020, https://rura.rw/fileadmin/Documents/ICT/statistics/Quarterly\_ICT\_ Statistics\_report\_as\_of\_June\_2020\_.pdf.

<sup>34</sup> "Active Mobile-Cellular Telephone Subscriptions", Rwanda Utilities Regulatory Authority (RURA), October 2020, https://rura.rw/fileadmin/Documents/ICT/statistics/Mobile\_telephone\_in\_telecom\_Statistics\_report\_as\_of\_ October\_2020.pdf.

<sup>35</sup> "Annual report 2019-2020", Rwanda Utilities Regulatory Authority (RURA), 4 December 2020, https://rura.rw/fileadmin/docs/report/RURA\_ANNUAL\_REPORT\_2019-2020.pdf.

<sup>36</sup> "Individuals using the internet (2019)", ITU ICT-Eye ICT Data Portal, 4 December 2020, https://www.itu.int/net4/ itu-d/icteye#/topics/2001.

<sup>37</sup> James Tasamba, "Rwanda Aims to Collect 1M Smartphones for Poor Families", Anadolu Agency, 2020, 4 December 2020, https://www.aa.com.tr/en/africa/rwanda-aims-to-collect-1m-smartphones-for-poor-families/1704126#:~:text=Rwanda%20has%20launched%20a%20campaign,20%25%2C%20according%20to%20 officials.

<sup>38</sup> Collins Mwai, "A Look at Rwanda's Effort to Bridge the Digital Gap", The New Times, 29 January 2020, https://www. newtimes.co.rw/news/look-rwandas-effort-bridge-digital-gap.

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<sup>40</sup> "Statistics Report for Telecom, Media and Broadcasting Sector as of the second quarter of the year 2020", Rwanda Utilities Regulatory Authority (RURA), June 2020, https://rura.rw/fileadmin/Documents/ICT/statistics/Quarterly\_ICT\_ Statistics\_report\_as\_of\_June\_2020\_.pdf. <sup>41</sup> "Measuring Digital Development: ICT Price Trends 2019", ITU Publications, 4 December 2020, https://www.itu.int/en/ ITU-D/Statistics/Documents/publications/prices2019/ITU\_ICTpriceTrends\_2019.pdf.

<sup>42</sup> ITU estimates look at the cheapest price with the largest operator for a data plan with a monthly allowance of at least 1.5 GB, irrespective of the device used, over a 3G or higher data transmission network. For someone who can't afford to spend \$11 per month (which is the majority of the low-income earners we are targeting) on data may need to get the smallest package, which costs more, i.e., 2,000 RWF for a monthly 1 GB on MTN and the same cost for 1.5GB on Airtel (the only two providers offering 3G services).

<sup>43</sup> The e-commerce start-up sells and delivers healthcare and private health products for women such as contraceptives and tampons. Customers can access Kasha via USSD, mobile and a web application. Customers using USSD can simply type in a short code to access Kasha's menu and place orders.

<sup>44</sup> Lavanya Anand, "Making a Bet on Women - Why We Invested in Kasha", VestedWorld, 4 February 2019, https:// vestedworld.medium.com/making-a-bet-on-women-why-we-invested-in-kasha-470394b6169c.

<sup>45</sup> The Digital Ambassador programme, locally known as Intore Mu Ikoranabuhanga, is an initiative designed to enhance uptake of ICT solutions in the countryside. The programme aims to empower 5,000 young Rwandans to serve as Digital Ambassadors and introduce 5 million citizens to digital literacy and opportunities through e-government and e-business services in the next five years (2019–2024).

<sup>46</sup> "Statistics Report for Telecom, Media and Broadcasting Sector as of the second quarter of the year 2020", Rwanda Utilities Regulatory Authority (RURA), June 2020, https://rura.rw/fileadmin/Documents/ICT/statistics/Quarterly\_ICT\_ Statistics\_report\_as\_of\_June\_2020\_.pdf.

<sup>47</sup> "Electricity Access", Rwanda Energy Group, 4 December 2020, https://www.reg.rw/what-we-do/access/#:~:text=Electricity%20access,grid%20systems%20(mainly%20solar).

<sup>48</sup> "Oversight Policy Framework for Financial Market Infrastructures in Rwanda", National Bank of Rwanda (BNR), June 2014, http://comesabusinesscouncil.org/wp-content/uploads/2020/04/9-OVERSIGHT\_FRAMEWORK\_FOR\_ FINANCIAL\_MARKET\_INFRASTRUCTURES\_OF\_RWANDA-1.pdf

<sup>49</sup> "Companies Licensed by the National Bank of Rwanda under the Laws of Payment Systems and CSD", National Bank of Rwanda (BNR), 2016.

<sup>50</sup> "Annual Report 2019-2020", National Bank of Rwanda (BNR), 2020.

<sup>51</sup> A registered subscriber might be registered with more than one SIM card or with more than one mobile operator.

<sup>52</sup> "Conduct Supervision & Financial Inclusion Department: Digital Payment Systems (2020)", National Bank of Rwanda (BNR), April 2020, "Labour Force Survey Annual Report 2019," National Institute of Statistics of Rwanda (NISR), April 2020, https://www.statistics.gov.rw/publication/labour-force-survey-annual-report-2019.

<sup>53</sup> "Rwanda Payment System Strategy: Towards a cashless Rwanda 2018–2024", National Bank of Rwanda (BNR), 2018.

<sup>54</sup> "Rwanda Finscope surveys 2020", Access to Finance Rwanda (AFR), 4 December 2020, http://statistics.gov.rw/ datasource/finscope-survey-2020.

<sup>55</sup> "Annual Report 2019-2020", National Bank of Rwanda (BNR), 2020.

<sup>56</sup> "Statistics Report for Telecom, Media and Broadcasting Sector as of the second quarter of the year 2020", Rwanda Utilities Regulatory Authority (RURA), June 2020, https://rura.rw/fileadmin/Documents/ICT/statistics/Quarterly\_ICT\_ Statistics\_report\_as\_of\_June\_2020\_.pdf.

<sup>57</sup> A partnership between the Ministry of Trade and Industry (MINICOM), International Trade Center (ITC), GIZ and DHL to develop the capabilities of SMEs, develop an e-commerce service centre in partnership with ITC and local partners and support development of e-commerce marketing strategy and e-commerce logistics strategy. Phase I of the project was implemented between 2017 to 2019, where 150 MSEs received capacity building training and onboarding by ITC. Phase II will focus on scaling other e-commerce service centers across Rwanda to tackle the international market with "Made in Rwanda" products.

<sup>58</sup> "Revised National Employment Policy", 2019, Ministry of Public Services and Labour, https://www.ilo.org/wcmsp5/ groups/public/---africa/---ro-abidjan/---ilo-dar\_es\_salaam/documents/publication/wcms\_715230.pdf.

<sup>59</sup> "National Skills Development and Employment Promotion Strategy: 2019 - 2014)", Rwanda Development Board (RDB, 2019, https://rdb.rw/wp-content/uploads/2019/07/NSDEPS.pdf.

<sup>60</sup> Kora Job Portal, 4 December 2020, https://kora.rw/jobportal/.

<sup>61</sup> " Law n° 66/2018 of 30/08/2018 Regulating Labour in Rwanda (2018)", Official Gazette no . Special of 16 September 2018, http://www.gmo.gov.rw/fileadmin/user\_upload/laws%20and%20policies/New\_Labour\_Law\_2018.pdf.

<sup>62</sup> Articles 7-9 state that an applicant is required to fill in two printed forms prepared by the Office of the Registrar General or by filling them in electronically. The application letter must contain: Names of the applicant; Date and the place of birth; Place of residence and domicile; Nationality of the applicant; Business name; and Business activities. In confirmation of data submitted for registration purposes, the applicant must submit the following documents: copy of the national identity card; payment evidence of registration fees of RWF 2,000 at RDB; and three colored passport photos. Requirements to registering local companies: complete the application form; copy of ID/Passport of applicant; complete two copies of Article 14 of the Companies Act (Memorandum of Association) and payment of registration fee of RWF 15,000 at RDB.

<sup>63</sup> EAC is a custom union with duty-free intra-EAC trade and common external tariff. It has 6 member states - Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda. The member states signed and adopted a common market protocol in 2009, which became operational in 2010. The common market protocol provides for five freedoms (free movement of people, goods, services, labour, and capital), and two rights (rights of residence and establishment). While the EAC now has a Customs Union and Common Market, the slow pace of regulatory reform, lack of harmonization, non-tariff barriers, and bureaucratic inefficiencies still hamper the free movement of goods, capital, and people.

<sup>64</sup> COMESA has 19 member states include - Burundi, the Comoros, the Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Sudan, Swaziland, Seychelles, Uganda, Zambia and Zimbabwe.

<sup>65</sup> ECCAS has 11 Member States – Angola, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Equatorial Guinea, Gabon, Republic of the Congo, RwaPartnership Agreement (EPA) to qualify for dutyfree and quota-free access to the EU market, bnda, São Tomé and Príncipe.

<sup>66</sup> "Trade Policy Review of East Africa Community", World Trade Organization Secretariat (WTO), 5 June 2019, https://www.wto.org/english/tratop\_e/tpr\_e/s384\_e.pdf

<sup>67</sup> In July 2018, the duty-free status of apparel exports originating from Rwanda was suspended, following Rwanda's decision to maintain higher tariffs on imports of second-hand clothes.

<sup>68</sup> "TRADE POLICY REVIEW: REPORT BY THE SECRETARIAT. Annex 3 Rwanda" EAST AFRICAN COMMUNITY (EAC), 5 June 2019, https://www.wto.org/english/tratop\_e/tpr\_e/s384-03\_e.pdf.

<sup>69</sup> "Trade and Investment Framework Agreement (TIFA) Between the Government of the United States of America and the Government of the Republic of Rwanda Concerning the Development of Trade and Investment Relations", 2006, https://ustr.gov/sites/default/files/US-Rwanda%20TIFA.pdf.

<sup>70</sup> "Treaty Between the Government of the United States of America and the Government of the Republic of Rwanda Concerning the Encouragement and Reciprocal Protection of Investment", 2008, https://ustr.gov/sites/default/files/uploads/agreements/bit/asset\_upload\_file743\_14523.pdf.

<sup>71</sup> "A Single Digital Market for East Africa: Presenting a Vision, Strategic Framework and Implementation Roadmap, and Impact Assessment", World Bank, 2018, http://documents1.worldbank.org/curated/en/809911557382027900/pdf/A-Single-Digital-Market-for-East-Africa-Presenting-Vision-Strategic-Framework-Implementation-Roadmap-and-Impact-Assessment.pdf.

<sup>72</sup> "African Union Convention on Cybersecurity and Personal Data Protection (2014)", African Union, 2014, https:// au.int/sites/default/files/treaties/29560-treaty-0048\_-\_african\_union\_convention\_on\_cyber\_security\_and\_personal\_ data\_protection\_e.pdf.

<sup>73</sup> "The Digital Transformation Strategy for Africa (2020-2030)", African Union, 4 December 2020, https://www.tralac. org/documents/resources/african-union/3013-the-digital-transformation-strategy-for-africa-2020-2030/file.html.

<sup>74</sup> "Digital Services Tax (2020)", HM Revenue & Customs, 11 March 2020, https://www.gov.uk/government/publications/introduction-of-the-digital-services-tax/digital-services-tax.

<sup>75</sup> "Law N° 016/2018 of 13/04/2018: Establishing Taxes on Income", Official Gazette no 16 of 16 April 2018, https://www.rra.gov.rw/fileadmin/user\_upload/new\_income\_tax\_law\_2018.1\_new.pdf.

<sup>76</sup> The end consumer pays the tax and not the person registered for purposes of collecting and accounting for and paying VAT to RRA.

<sup>77</sup> "Pension Scheme Law, Law N° 05/2015 of 30/03/2015: Governing the Organization of Pension Schemes (2015)", Official Gazette no 20 of 18 May 2015, http://197.243.22.137/rlrcgov/fileadmin/user\_upload/Laws2/LAWS%20 PUBLISHED/RWA%20LAWS%20PUBLISHED%20IN%202015/RWA%202015%20%20LAW%20N0%2005-2015%20 PENSION%20SCHEMES%20-OG%20N0%2020%20OF%2018%20-MAY%20-2015.pdf.

<sup>78</sup> "Long-term Savings Scheme Law, Law N° 29/2017 of 29/06/2017: Establishing the Long-Term Savings Scheme and Determining its Organization (2017)", Official Gazette no 29 of 29 June 2017, http://www.fonerwa.org/sites/default/files/Law%20establishing%20the%20National%20Fund%20for%20Environment%20and%20determining%20 its%20mission%2C%20organisation%20and%20functioning%20%28N%C2%BA%2039%3A2017%20of%20 16%3A08%3A2017%29.pdf.

<sup>79</sup> "Cybersecurity Regulation No 010/R/CR-CSI/RURA/020 of 29/05/2020", Rwanda Utilities Regulatory Authority (RURA), 4 December 2020, https://rura.rw/fileadmin/Documents/ICT/Laws/Cybersecurity\_Regulation\_in\_Rwanda.pdf.

<sup>80</sup> "Law No 24/2016 of 18/06/2016: Governing Information and Communication Technologies", Official Gazette no 26 of 27 June 2016,

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<sup>81</sup> "Law No 36/2012 of 21/09/2012: Relating to Competition and Consumer Protection", Official Gazette no 46 of 12 November 2012, http://www.rsb.gov.rw/fileadmin/user\_upload/files/Competition\_Law.pdf.

<sup>82</sup> " Law No 18/2010 of 12/05/2010: Relating to Electronic Messages, Electronic Signatures and Electronic Transactions (2010)", Official Gazette of no 20 of 17 May 2020, https://www.wipo.int/edocs/lexdocs/laws/en/rw/rw030en.pdf.

<sup>83</sup> "Regulation N°07/2010 of 27/12/2010: Electronic Fund Transfers and Electronic Money Transactions (2010)", Official Gazette no special 30 December 2010, https://dfsobservatory.com/sites/default/files/National%20Bank%20of%20 Rwanda%20-%20Regulation%20No.%207-2010%20-%20On%20Electronic%20Fund%20Transfers%20and%20 Electronic%20Money%20Transactions.pdf.

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