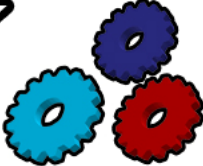


Proposal for the Global Enterprise Experience 2006 by  
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The great aim of education is not knowledge, but action.  
*Herbert Spencer (1820-1903)*

*International agency for the advancement of cooperation -*

**LINK**  **AID**

## 1. Executive summary

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The agency LinkAid obtains funding for micro-credits from existing banks and development funds and forwards them to local entrepreneurs in Rwanda to assist local economic development. In addition to the provision of funding, LinkAid supplies assistance to Rwandan entrepreneurs firstly through advice on their business and secondly with the contact to experts on the respective fields from developed countries. The combination of financial aid, business education and knowledge transfer promotes both foreign investments and local entrepreneurship in Rwanda and increases the yield of micro-credits.

### Objectives

- Creating a connection between Rwandan local entrepreneurs, international micro-finance funds and field experts from developed countries
- Seeking out financial aid from different levels of organizations, especially micro-finance funds, around the world for Rwanda to develop its national economy
- Ensuring effective and active use of the funding by Rwandan local entrepreneurs

## 2. Nature of the venture

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### A. Background

Started in 1976 by the Grameen Bank in Bangladesh, micro-financing has so far helped 300 million people with more than US\$ 7bn in loans. Awareness of micro-financing as an effective tool for fighting poverty and the provision of funds are rising fast - in fact, the United Nations made 2005 the International Year of Microcredit.

The payback rate of micro-credits is very high, so that defaulting loans are not a problem. However, two drawbacks have led to the development of this proposal for a new intermediary agency: firstly, micro-credits don't work in every country. Forbes.com specifically mentions Rwanda as one of the countries missing the necessary economic activity and stability that are required for a working micro-credit system<sup>1</sup>. And secondly, micro-credits provide financial aid to local entrepreneurs, but no guidance and advice in setting up a business.

Interestingly, advice is already being offered to developing countries through initiatives such as the Senior Experten Service in Bonn/Germany: retired professionals donate their knowledge, time and contacts to worthy causes in countries that can benefit from them. A retired German engineer, for example, developed more efficient central-heating boilers in Mongolia by applying what was common sense to German builders, but made a huge difference in Mongolia. Other initiatives and prospective partners are Computer Aid International or the Geekcorps that assist in providing locals with computers and the knowledge necessary to use them properly.

In order to add more efficiency to micro-credits on the one hand and to provide sufficient funding to those projects that already receive expert advice on the other hand, the agency we propose to set up will link investors, entrepreneurs and existing initiatives to promote small-scale entrepreneurship in Rwanda - hence the name LinkAid. (More on LinkAid's logo can be found in the appendix.)

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<sup>1</sup> Dolan, K. (2005) "The Forbes Global 2000 - Up From The Rubble"  
[http://www.forbes.com/free\\_forbes/2005/0418/158.html](http://www.forbes.com/free_forbes/2005/0418/158.html)

## B. The product /service

LinkAid will provide help on three levels: **funding, advice and education**. Locals who want to set up a business of their own, e.g. the growing of high quality passion fruit for export to Europe, can contact LinkAid in Rwanda to arrange a micro-credit with one of LinkAid's financial partners who supply and administrate the actual loan. LinkAid will welcome proposals from all fields of the Rwandan economy. Secondly, LinkAid will aid in the development of a business plan and contact an expert in the field, say a retired agricultural engineer from Germany, who will help initially via telephone/internet and possibly also during a visit to Rwanda with all issues that relate to the business. And thirdly, LinkAid will arrange for lectures on business administration basics, so that more locals can seize the change to properly start their own business. To provide this service, LinkAid is going to cooperate with Rwandan universities.

## C. Location of venture

The agency will have offices in Germany, New Zealand and in Rwanda. It will also have a website in order to have a central contact for investors willing to either invest in micro-credits with LinkAid's partners or to donate money to LinkAid.

The **German office** will focus especially on finding suitable experts to help their partners in Rwanda working on similar, albeit much more basic projects. Not only is the education level very high in Europe and particularly in Germany with its system of master craftsmen, but with a population of 80 million (Germany) and more than 450 million respectively (European Union), the number of potential experts is sufficiently large. Apart from Germany, France will be a second target country for experts, as these will speak French, Rwanda's official language. Initially, LinkAid Germany will cooperate with the Senior Experten Service in Bonn.

The office in **New Zealand** will care for the financial pillar and search for larger micro-credit funds. The contacting of suitable institutions and organizations world-wide can be done effectively using the internet and the telephone.

The office in **Rwanda** will take over the actual "distribution" by staying in contact with local small businesses, business administration teachers, universities and the interested public. Also, for actual projects, the office in Rwanda will coordinate the work of the afore-mentioned experts, micro-credit funds and teachers and ensure that LinkAid's work is suited to the specific conditions in Rwanda. It will also prepare the necessary documentation for the offices in Germany and New Zealand.

## 3. Description of the market

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### A. Market Trends

Rwanda today has almost overcome the effects of the genocide of 1994; all key economic indicators are back on the levels of 1990.

The Rwandan GDP stood at US\$ 11.26bn or US\$ 1,300 per capita in 2005 and grew by 4.8%. This growth rate puts Rwanda ahead of Israel and Ireland in relative terms and is also above the World average of 4.4%. Agriculture accounts for 37.6%, services for 39.6% of the GDP and both sectors can be expected to grow further in the future.

Rwanda has been included in a number of crucial international initiatives in recent years. It has benefited from an IMF and World Bank debt relief in 2000 and 2006, respectively, and has been an initial member of the U.S. Congress's African Growth and Opportunity Act (AGOA) since 2000 and of the Common Market for Eastern and Southern Africa (COMESA). While the inclusion in AGOA doesn't carry any concrete benefits (it alleviates U.S. market access for countries of sub-Saharan Africa), it has certainly helped to maintain the level of positive attention that Rwanda is already receiving.

Rwanda will also be provided with funding to combat the adverse effects of HIV/AIDS infections as part of the Emergency Plan for AIDS Relief of the President of the United States, so that development assistance can again focus on rural economic growth that is needed in Rwanda. From a political point of view, the potential needed to support this growth exists. Rwanda has several universities and its literacy rate is at a promising 70.4%. It is a multi-party republic, which adds to political stability and the country's potential. The government has set up the Rwanda Investment Promotion Agency (RIPA) to further improve the investment climate. Investment opportunities exist in a wide range of sectors such as coffee, tea, energy and water, telecommunication and internet, tourism and other small industries such as processing of pyrethrum, food processing, flower production, beer and soft drink industries, commercial fishing, construction and high quality agricultural business. Each sector has great potential for the in the future.

A good indicator of economic growth that already takes place is the level of Foreign Direct Investments, which has been rising in recent years and is now surpassing USAid development assistance (see appendix for diagram).

Despite this promising perspective, it shouldn't be forgotten that Rwanda is still dependent on economic aid and has received US\$ 425 mio. in 2003. For LinkAid, however, the combination of development need and growth potential means that it will be able to work and help effectively.

#### B. Current competitors

Unlike the usual set-up of a new enterprise, competition to LinkAid in general will be appreciated, as the people of Rwanda would profit from more offerings. Currently, the only "competitor" that focuses solely on Rwanda is a micro-finance institution called Urwego, which does, however, only offer basic education, but no service around its micro-credits.

### 4. Description of the product /service

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#### A. Uniqueness of product /service

The agency provides services for both international micro-finance suppliers and local people. The basic function of the agency is to help Rwandan entrepreneurs in setting up their business and to ensure a more stable and higher yield for the investor that provides the necessary micro-credit. This is achieved by transferring knowledge from developed countries to Rwanda and by offering courses and advice in business administration for locals.

Possible additional services for foreign investors include:

- Facilitation of communication between investors and their prospective Rwanda partners
- Investment intelligence and analysis by professional experts in the Rwandan office

Services for Rwanda local entrepreneurs can be expanded to:

- Communication of Rwanda's advantages and opportunities for investors
- Seeking-out of foreign investment for Rwanda

#### B. Advantage over competing products /services

Most organizations provide either financial aid or technology assistance or both, but fail to convey the necessary skill training, so that people in developing countries can take advantage of the funding and of their own resources to achieve sustainable economic development of their own. In comparison, the combination of financial aid and knowledge provision and skill training from professional instructor will ensure that the funding is used for projects that

actively and effectively engage the Rwandan people and assist them in building a sustainable enterprise for their own.

## 5. Objectives and goals

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### A. Short term-objectives

LinkAid's short-term goal is to deliver a proof-of-concept to ensure further funding, both for its micro-credit partners as well as for its own operations.

Within the first year, the offices in Rwanda, Germany and New Zealand and the communication processes between need to be set up and perfected. The agency will also begin to work on projects in Rwanda brought up by locals or identified by LinkAid itself. Examples of these are eco-tourism, horticulture, fruits and inexpensive computers. Efforts must be made for the agency to be known by local and international entrepreneurs, institutions, NGOs, etc. with whom the agency will work. The demonstration of successful operation increases the likelihood of funding by institutional supporters such as USAid.

### B. Long term-objectives

The long-term goal of the agency will be the expansion of its activities to larger projects in the fields of mining, infrastructure and ICT. LinkAid may also expand its activities into Rwanda's neighboring countries like the Democratic Republic of Congo, Uganda, Burundi and Tanzania. If LinkAid is to work in these countries, strong contacts or preferably offices in these countries have to be established. The long-term vision of LinkAid will be to become the foremost channel of investment and advice into Africa's Great Lakes region.

## 6. Venture strategies

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### A. Marketing strategy

The first objective is to create a website at <http://www.linkaid.org> which will inform LinkAid's customers all around the world about its activities. Secondly, advertisements will be aired on radio and TV in order to let local entrepreneurs and organizations know about the services and products offered. Thirdly, LinkAid will print pamphlets that can be distributed locally and nationally in Rwanda. Eventually, successful Rwandan ventures will be used to demonstrate LinkAid's effectiveness to international investors.

### B. Human resource strategy

In Germany and New Zealand, LinkAid needs people with experience and contacts in the fields of micro-finance and development assistance. The Rwandan office will be essential to LinkAid's success so that well-educated locals will be employed there to coordinate LinkAid's projects. Self-reliance and innovation will be two guiding principle of the company culture.

### C. Financial strategy

LinkAid will strengthen established contacts to organizations and investors in order to increase the size of supported projects. It will be critical to find a long-term partner that provides financial support and ideally expertise in the field of micro-financing. This could either be a foundation or a larger micro-finance fund. Additional revenues could be achieved in the long run through the provision of expertise on investments in Rwanda to foreign investors.

E. Overall strategy for growth

LinkAid’s strategy for growth is to expand its activities in Rwanda’s neighboring countries and to be a channel of investments into Rwanda and this region of the world. That will be possible by using LinkAid’s resources effectively and efficiently.

7. Financial data

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A. Data Overview

LinkAid’s operations will start out on a small scale to minimize the capital requirements, while still demonstrating the effectiveness of its service.

Assumptions:

LinkAid will have active micro-credits to the sum of \$200,000 at the end of the first year, resulting in an average of \$100,000 of credit given out.

Ideally, LinkAid would be wholly equity-financed, but it is more likely that a subsidized institutional loan needs to be taken out. The ration of equity to loan capital is ¾ to ¼.

B. Balance Sheet

Assets (US\$)		Liabilities (US\$)	
Fixed Assets		Equity	
Land & Buildings	0	Equity Capital	103,125
Machinery	0	Loans	
Fixture & Fittings	29,000	Loan Capital	34,375
Current Assets			
Debtors / Credits	100,000		
Cash & Bank Acc.	8,500		
	<b>137,500</b>		<b>137,500</b>

Fixtures and fittings include computers and office equipment at the three offices.

C. Monthly Expenses

Expenses for the offices in Germany and New Zealand are assumed to be the same. In both offices, a coordinator focusing on the country office’s center role (knowledge transfer or financing) and an administrative employee will work during the first year. To reduce long distance charges, LinkAid will utilize Voice-over-IP (VoIP) telephony for the communication between the offices in Rwanda, Germany and New Zealand. For salaries, office rents, postage and supplies and the web site, monthly costs of US\$ 8052.50 are incurred in each Germany and New Zealand. Due to the small scale of operations, cooperation with the Senior Experten Service will take place on a case-by-case basis without explicit costs being charged. This could change in the future once the program has been fully developed.

In Rwanda, four coordinators will initially take over the implementation of LinkAid’s activities: one each for micro-finance aspects, knowledge transfer, local education and lastly business projects. Three secretaries will assist the coordinators. Teachers required for the lectures in business administration will be employed on a contractual, daily basis in cooperation with local universities. For the first year, these payments will amount to \$20,000. In comparison, this is the salary of a full-time qualified telecommunications technician. For salaries, rent and communication, the Rwandan office will incur costs of \$9948.00 per month.

All in all, monthly operations total \$26,053.00, resulting in \$312,636.00 per annum for LinkAid's operations excluding teachers' wages. A one-time setup fee of \$8,000 needs to be added for legal expenses, negotiations and administrative charges associated with the foundation of LinkAid. A detailed table of the costs can be found in the appendix.

#### D. Sources of capital in the first year

LinkAid will need an initial funding to pay for its operations during the first year. For this, US\$ 150,000 seems advisable, as the balance sheet assets and an additional buffer would be covered. Income in the first year will then be generated by LinkAid's Rwandan services. The remaining financing will have to come from a foundation or a grant supporting LinkAid. As LinkAid can increase the effectiveness of existing projects, all of the supporters of these projects are potential supporters of LinkAid (World Bank, IMF, USAid, NZAid, private institutions, ...)

The income from services in Rwanda will come from the provision of both micro-credits and business advice. The interest rate must not be too high if the micro-credit is to be attractive to locals.<sup>2</sup> To determine an appropriate interest rate, a look at existing providers of micro-financing helps: The Grameen Bank and a non-profit organization called FriendshipBridge provide micro-credits to people in Bangladesh and Guatemala respectively at an interest rate of 20%. The inflation rates of these two countries are not higher than Rwanda's, so that 20% will also be the assumed rate for Rwanda. LinkAid will add a 20% surcharge on this interest rate for the business advice, bringing it to 24%. We assume that LinkAid will have to pay 12% of interest to its micro-finance partner, which includes the processing and administration of the loan.

At the assumed US\$ 100,000 in credits, LinkAid will receive \$24,000 in gross interest payments. As Rwanda has an inflation rate of 8%, LinkAid receives \$22,222 effectively. Deducting the interest that LinkAid hands on to its partner, \$10,222 are left in net inflow for the first year.

#### C. Long-term financing strategy

In the long run, the Rwandan operations can theoretically achieve self-sustainability as soon as a certain credit volume is reached. Assuming a 24% gross interest rate, a 12% interest rate paid to the loan provider and unchanged costs and inflation, LinkAid can generate US\$ 120,000.00 in income when lending out US\$ 1.73 million in micro-credits, which would make it one of the largest finance providers in Rwanda.<sup>3</sup> In a second step, LinkAid could negotiate a share in profits of the companies it has helped to found.

It does however not seem likely that the Rwandan operations will be able to finance all of LinkAid's activities, as no income is generated in Germany and New Zealand apart from the planned investment advice to foreign investors. In the long run, LinkAid will need to either establish a supporting foundation whose capital yields sufficient income to finance LinkAid, or to merge with a (micro-) finance fund that wants to provide LinkAid's service in other countries as well.

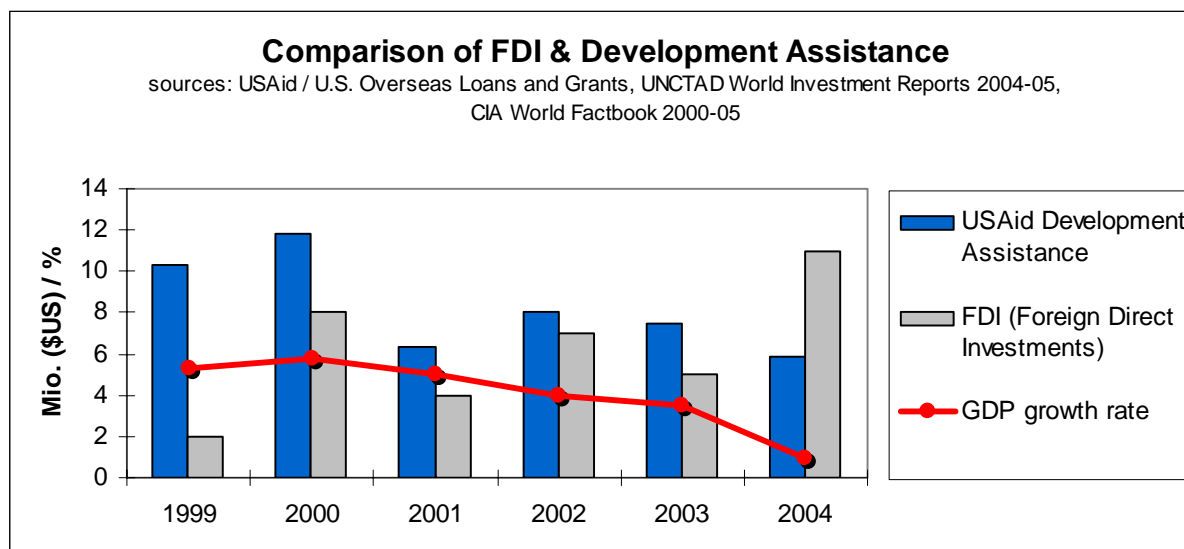
We consider this last strategy the best option, as the concept behind LinkAid can be applied in many countries with only slight alterations.

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<sup>2</sup> This is supported by an article in the Knowledge@Wharton database: <http://knowledge.wharton.upenn.edu/>

<sup>3</sup> The only MFI (micro-finance institution) operating solely in Rwanda, Urwego, had a gross loan portfolio of US\$ 788,753 in 2004.

## A. Macro-economic indicators: Rwanda



(own diagram)

Add.: The GDP growth rate rose to 4.8% in 2005.

## B. Calculation of monthly costs

Office space in both Germany and New Zealand is assumed to be 50 sq. meters<sup>4</sup>, the rent per sq. meter is assumed to be \$12.00. Communication costs including additional monthly expenses for office supplies, postage, etc. are set at \$300. Hosting of the website will cost \$5.00 per month<sup>5</sup>, providing sufficient web space and traffic allowance.

The salary for the coordinator is set at \$4000 per month; the clerk's salary will amount to US\$2500. A surcharge of 10% is added to allow for additional personnel costs.

In Rwanda, the four coordinators taking over the implementation of activities will each receive US\$1800.00 per month. Three secretaries will assist the coordinators, at a salary of US\$416.00 each.<sup>6</sup> Communication costs are assumed to be slightly higher than in Germany and New Zealand, so that US\$500.00 is estimated. The Rwandan office will occupy 200 sq. meters at a cost of US\$5.00 per sq. meter per month.

Germany and New Zealand		Rwanda	
Communication	\$600.00	Communication	\$500.00
Rent	\$1200.00	Rent	\$1000.00
Salaries	\$14,300.00	Salaries	\$8448.00
Web-site	\$5.00		
<b>total</b>	<b>\$16105.00</b>	<b>total</b>	<b>\$9948.00</b>

<sup>4</sup> according to the "Office Space Calculator" provided by <http://www.officefinder.com>

<sup>5</sup> <http://www.1and1.com> - "Home" package

<sup>6</sup> Rwandan salaries are based on a report for *RwandaTel* by the *International Telecommunication Union* <http://www.itu.int/ITU-D/hrd/publications/reports/2001/studies/Rwanda/hrmasterplan.pdf>



C. LinkAid's logo and name



(own logo)

The logo of LinkAid reflects two of its most important qualities.

1. The three gear wheels symbolize the act of effectively linking the power of different parties.
2. The colors of the gear wheels represent the three countries from which LinkAid hails: light-blue from Rwanda's national flag, dark-blue from the New Zealand flag and red from Germany's national flag.

The appropriate URL, <http://www.linkaid.org> is also still available for registration.

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<http://www.geebiz.org>