AGRICULTURAL FINANCE CONFERENCE REPORT
7-8 October 2015
Access to Finance Rwanda (AFR) would like to thank the various organisations, presenters and participants whose involvement made the first agriculture finance conference a great success.

Special thanks go to AFR’s partners: Global Communities, UNCDF, BNR, World Bank, KFW, USAID, UOB, and UK aid. We would also like to thank the Government of Rwanda, whose support and partnership through MINECOFIN and MINAGRI contributed greatly to the success of the event.

Appreciation must also go to our team at AFR and the conference steering committee who organised the two-day event and ensured its smooth running.

Further, we would like to thank the presenters and speakers who steered the conference discussions, helping us to achieve the desired objectives.
ACCESS TO FINANCE RWANDA

AGRICULTURAL FINANCE CONFERENCE REPORT

7-8 October 2015
EXECUTIVE SUMMARY

The Agriculture Finance Conference – themed ‘understanding agriculture finance and its role in financing growth’ – took place on 7–8 October in Kigali, Rwanda. The Conference had three major objectives, highlighted below.

1. To share global knowledge on agriculture finance including best practices and possibilities for their replication in Rwanda.

   • Much has been done to improve access to finance for agriculture in many countries, including Rwanda. It should be noted, however, that in order to ensure the efficiency of different initiatives, farmers in rural markets need to be segmented before their needs can be assessed and packages developed to suit these needs. This is because there is a variety of reasons why different groups of farmers still lack access to finance.
   • The role of cooperatives in improving access to finance in agriculture is very important; as such, financial institutions (FIs) need to develop more partnerships with cooperatives and SACCOs in order to achieve the desired results.

2. To demonstrate existing innovations and products, both from within and outside of Rwanda, in defined agriculture value chains, and how these can be replicated in other value chains.

   • Several innovations have been developed, both in and out of Rwanda, that can be used to improve different value chains: for example, business development funds (BDFs), weather-based crop insurance, and warehouse receipt schemes. Each of these products could greatly improve the sector if applied to the specific needs of a particular value chain.
   • It is important to note that all these innovations and products rely heavily on advancements in technology for their success; the ICT sector has a major role to play in agriculture and stakeholders in the two sectors need to work closely together.

3. To present lessons on different approaches to risk mitigation and to understand practices that have been used to facilitate finance for agriculture.

   • To develop appropriate risk mitigation approaches it is imperative to identify and understand the risks in agriculture.
   • The best way for this to happen is to ensure that these approaches are designed by agriculture experts who understand the sector.
   • Successful risk management approaches that have been applied in other countries can be replicated here while remaining true to the Rwandan context.

MOVING FORWARD

Other significant areas that merit further consideration and efforts were highlighted at the conference:

• Improving access to information;
• The need for greater and more frequent institutional capacity building;
• The Government of Rwanda (GOR) should create deliberate strategies to improve access to finance;
• Stakeholders, and FIs especially, need to have a better understanding of market segmentation; and
• The review of current initiatives like BDF.
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DAY 1
1. CONFERENCE OPENING REMARKS

The Conference was privileged to be opened by key Rwandan stakeholders who recognise that increased credit in the agriculture sector is key to ensuring the development of the sector in Rwanda.

The following stakeholders made presentations as part of the opening remarks of the Conference:

1. Mrs Judith Aguga, AFR’s Technical Director, gave a brief background of AFR’s mandate. She emphasised that limited credit offered to the agriculture sector is undermining Rwanda’s development, since all Rwandan enterprises are linked to agriculture in some way. Additionally, this limited growth is hindering the Rwandans Batuyage (citizens) from growing their business and contributing effectively to the development of the country. A video was shown of farmers demonstrating the missed opportunities they face because of limited capital to grow their business and the challenges they face when making attempts to access credit from financial institutions.

2. Ms Laure Beaufils, head of DFID Rwanda, gave a brief insight into the current structure of Rwanda’s agricultural sector. In 2014, the sector accounted for a third of the country’s gross domestic product (GDP), and it is one of the most profitable sectors in the economy. She highlighted some of the constraints facing the sector, which include:
   - low mechanisation;
   - pests and diseases; and
   - limited access to finance – the major constraint.

Ms Beaufils remarked that commercialisation of the sector will go a long way towards alleviating these constraints and improving the sector through increasing the creditworthiness of farmers, building business skills, improving food security, and increasing output.

She also shed light on the reasons why commercial banks are reluctant to lend to the sector. These include:
   - the agricultural sector is considered very risky;
   - the high costs of extending agriculture finance;
   - a lack of collateral; and
   - commercial banks can make more money through lending to other sectors.

Additionally, she made a call for the private sector to be a driver of change in the agricultural sector, and for the Government to provide the necessary framework to facilitate this. She
also called for the Credit Reference Bureau to improve its functioning by soliciting support from the private and public sectors.

3. Dr Geraldine Mukeshimana, Minister for Agriculture, gave the key note speech for the conference. Her remarks touched on the following:

- The agriculture sector contributes 70 per cent of Rwanda’s exports despite very limited investment from the private sector.
- Economic transformation should start where the majority of the country's resources are; Rwanda's major resource is its people, most of whom work in the agriculture sector.
- Most farmers within the sector operate on a small scale and own 80 per cent of the land.
- The GOR has put in place a land consolidation policy where people can join their plots of land to create a sizable area for farming.
- Rwandans have a right to land ownership which is not the case in many African countries.
- The GOR has set up cooperatives and is supervising their activities to ensure they are well organized and cannot be undermined; some of these cooperatives have agro-processing units and so provide a ready market for members’ produce.

Dr Mukeshimana concluded by informing conference participants that the Government is willing to work with all stakeholders to improve the sector. The GOR has already made efforts to de-risk the sector through various initiatives including a pilot project on weather-index-based crop insurance, the establishment of the Business Development Fund (BDF) which provides guarantees for loans, and the establishment of a commodity exchange market and warehouse receipt system to enable produce in storage to be used as collateral.

The minister encouraged FIs to reach out to more people with the support of the country’s fast-growing ICT sector and called for the various stakeholders at the conference to discuss ways to bridge the capacity gap, to help the Government to boost the sector, and to use the conference as a platform for identifying best practice in other countries’ agricultural sectors which might be replicated in Rwanda.

1.1 SETTING THE STAGE FOR THE CONFERENCE

PRESENTATION ON GLOBAL PERSPECTIVES ON OPPORTUNITIES, TRENDS AND CHALLENGES IN AGRICULTURE FINANCE

In this session, Mr Jonathan Ndaa Agwe, from IFAD, talked about the changing nature of the sector. He quoted that 2.5bn people out of the 3bn people around the world live in rural areas, most of who are involved in agriculture related activities.

He observed that Africa has an untapped market, especially in the agricultural sector: the prospects for this sector are seen in the growth of regional and international trade, and a fast urbanisation rate – all of which will increase the demand for agricultural produce. Likewise the shift from traditional food crops to high value perishable agricultural crops. Therefore the Government needs to address the structural changes within the sector.
Some of the challenges Mr Ndaa Agwe highlighted were: low total factor productivity due to expensive inputs; a lack of access to information – both for financial institutions and for farmers; and inappropriate government policies, for example, setting caps on financial services like interest rates, and premiums for insurance. However, without some government intervention, market forces can destabilise the economy if left to determine interest rates or insurance premiums.

Based on the above challenges, and global trends for resolving them, IFAD recommends the following to develop agriculture financing:

- Promote the use of public–private people partnerships (PPPP), in which the focus of the partnership is on people – in this case, farmers. The main idea here is to understand the farmer’s environment, identify his or her problems, and develop appropriate solutions to challenges on both the supply and demand sides.
- Global trends show that access to finance can be improved by adopting a value chain approach. Under this approach, farmers have to identify their market before commencing production.
- Government was urged to limit its role of monitoring the sector and instead encourage institutional capacity development.

1.2 CLOSING REMARKS

Dr Monique Nsanzabaganwa, Deputy Governor of the Central Bank (BNR), made the closing remarks for the session. She pointed out that the agriculture sector accounted for 2.1 per cent of total lending by commercial banks in the first eight months of 2015 – representing a significant increase of 71 per cent compared to last year. She observed that the agriculture sector provides untapped business opportunities and that financial institutions and private-sector companies should therefore focus on how to exploit these opportunities rather than focusing on the challenges or risks that the sector presents.

1.3 PRESS RELEASE

As part of the closing ceremony, Ms Laure Beaufils – head of DFID, Dr Geraldine Mukeshimana – Minister of Agriculture, and Mr Eric Rwigamba – Director General of Financial services in MINECOFIN, addressed a press conference on the key issues facing the agricultural sector.
2. PROMOTING AGRICULTURE FINANCE CAN BE PROFITABLE

2.1 EXPERIENCE OF CENTENARY BANK

PRESENTATION BY MR FABIAN KASI – CEO CENTENARY BANK

Uganda-based Centenary Bank is a rural bank that promotes agriculture finance. Currently 15 per cent of the bank's loans go to the agriculture sector. Mr Kasi described the nature of Uganda's agricultural sector, which employs 75 per cent of the population of Uganda. The sector contributes about 50 per cent of the country's exports and accounts for about 25 per cent of GDP – yet only 10 per cent of households working in agriculture have access to finance.

The Centenary Bank approach to Agriculture Finance:

- Recruitment of specialised agricultural officers, who understand the sector, to handle the loan facilities for agriculture. These officers also act as extension workers to offer financial and business advice to the farmers and to monitor the loans.
- Partnered with World Bank to develop a specialised Information Management System that provides bank personnel with information for making decisions on loans.
- Development and use of various tools like mapping, and studying the agriculture value chain, have helped to improve the bank's financial services to the agricultural sector.
- Other tools: the Agricultural Lending Analysis Systems (ALAS) makes projections of production loans. It gives an indication of the amount of money a client would be able to pay in consideration of the client’s project constraints. A credit-scoring tool is used to give an indication of the client’s profitability and thus helps to determine the amount of money to lend.
- Mapping the whole country to determine the areas best suited to each agricultural activity. This enables the bank to identify and focus on the most profitable activities to lend to in different parts of the country. The viable enterprise tool is used to determine the areas with competitive advantage in the production of certain enterprises.
- Partnerships with the private sector through contracts and tripartite arrangements – which include the buyer, the farmer, and the bank, and where the buyer pays the farmer through the bank and the loan repayments are made immediately.

Key lessons for Financial institutions

- FIs need to understand their clients' needs and the circumstances under which they operate so as to design suitable products for them.
- Determine ways and strategies for mitigating risk e.g. through partnerships and use of analysis tools.
- The FI has to make agriculture finance its strategy and ensure buy-in from all its stakeholders – including the BOD, managers, and other staff.
2.2 PANEL DISCUSSIONS ON PROFITABILITY OF AGRICULTURE FINANCING

This session was hosted by Mr Alex Kanyankole – CEO of BRD, Mr Tineyi Mawocha – CEO of UOB, and Mr Fabian Kasi – CEO of Centenary Bank, Uganda. The chief executives shared their experiences in agriculture financing and the ways in which they are dealing with associated risks in the sector.

The speakers emphasised the need for banks to understand their client’s needs first in order to develop a suitable package for them. However, this isn’t currently the case with most banks. Centenary Bank endeavours to keep up with its clients’ changing needs and so periodically carries out capacity-building trainings and continues to work through various partnerships to design new products.

It is clear that agriculture is a risky sector, but it is also agreed that not being involved in agriculture is even more risky. It is therefore incumbent upon FIs to find ways of managing and mitigating those risks; where there is a risk, there is a return. One of the ways banks can manage risks is through working with insurance companies to design loan packages that include insurance. However, agricultural insurance is still limited to a few crops and particular value chains, and specific risks like climatic change.

Banks are still under-funding agriculture, mainly for the following reasons:

- Lack of proper risk management tools;
- No deliberate government strategy for banks to increase lending to the agriculture sector; banks derive more profits from lending to other sectors.
- Banks have much of their portfolio into refinancing, yet most agricultural loans are needed for start-ups. BRD, for example, has almost 10 per cent of its portfolio into refinancing, which makes agriculture less desirable to lend to.
- According to an SNV study on agrarian financing in horticulture and dairy farming, one reason banks are still reluctant to lend to the sector is because they do not want to manage small loans.

In order to tackle these challenges, FIs should commit to supporting agriculture, identifying the challenges involved, and finding ways of managing the challenges.

It is important to note, however, that low levels of literacy among farmers is a major challenge in the sector. Farmers lack business skills like record-keeping, understanding market needs, and the standards required of their produce. This makes them less appealing for FIs to take on as clients.

Further, there is a need to transform the sector from subsistence agriculture to a more market-oriented approach, to improve the credibility of farmers when borrowing from financial institutions.
3. UNDERSTANDING CREDIT RISK IN AGRICULTURE FINANCE

Focus for financial institutions should also include:

- Understanding the borrower’s willingness and capacity to pay.
- Having access to the right information as regards the performance of agricultural activities also needs to be addressed.
- Designing measures that offer incentives for the loans and also appropriate loan enforcement methods.

It is important to keep in mind that the needs within the financial market and the agri business are not homogenous. Therefore one financial product cannot cater for the needs of all the farmers.

Farmers who have proper knowledge of their needs will not borrow if financial institutions do not have a suitable product for them.

3.1 PRESENTATION: REAL AND PERCEIVED RISKS – MRS JUDITH AGUGA, ACCESS TO FINANCE RWANDA

In her presentation, Mrs Aguga explained that financial institutions need to understand risks within the sector before being able to design packages for their clients. She noted that agriculture is not the only sector or business prone to risk and further added that to properly understand risk, certain factors needed to be considered:

- The risks involved in that particular business.
- The frequency of occurrence of the risk.
- The segment of people in the sector who are affected by the risk.
- The impact of the risk, which should be the major focus for financial institutions.

It is only after understanding these risks that financial institutions and other stakeholders can design appropriate mitigation strategies. Financial institutions fear losing money, and in lending to the agricultural sector their risk of losing money is higher.

There are also several policy-related risks, most of which are not easy to address. Financial institutions therefore need to channel efforts to address the market-related risks, over which they have considerable control, which would enable them to limit the risks in the sector.

The key lesson, therefore, is to understand the associated risks in agriculture in order to design the appropriate risk mitigation strategies. This can be supported through various partnerships, as seen with AFR’s partnership with UOB and RIM to develop favourable credit schemes for farmers.
4. PRODUCTS AND PEOPLE AS A WAY OF MANAGING AGRICULTURE PORTFOLIO

4.1 PRESENTATION: THE ROLE OF PRODUCTS, PROCESSES AND PEOPLE IN FINANCING AGRICULTURE – MR ASAPH BESIGYE

Financial products and packages for the agricultural sector should be demand driven, whereby the financial facility matches client needs to eliminate product or people gaps. This can only be achieved by harmonising borrower needs with those of the lender.

Hence, financial institutions need to ascertain whether they have the right products for their clients, but also differentiate between the product and the delivery mechanism; financial products should enhance the borrower’s business over time.

Financial institutions should therefore consider the following key factors when designing their products:

- Flexibility in regard to the type of collateral required makes it possible for more farmers to borrow.
- The timing of the loan disbursement should be in accordance with the agriculture seasons. Small amounts can be disbursed for different activities at different stages of the season.
- Not to underfund or overfund agricultural activities; otherwise the risk of non-repayment increases.

Key Lessons for financial institutions

- Need to have the right skills and attitude when handling agricultural clients.
- Need to have efficient supervision and reporting systems to improve agricultural loan performance.
- Allocate personnel to handle agriculture loans specifically so as to ease the client case load and enable a faster loan approval mechanism. In addition to this, personnel should be given monetary and non-monetary incentives.
SESSION 2 BREAKAWAY SESSION ON AGRICULTURE LENDING SCORE TOOL BY THE FRANKFURT SCHOOL OF MANAGEMENT

Overall, the audience was very enthusiastic about the ALES tool and the session experienced a great discussions after the presentation. Representatives from all levels of agriculture finance, i.e. government, banks, as well as MFIs / SACCOs and NGOs showed interest in the tool and contributed to the Q&A session as reflected by the issues outlined below.

- **Database development:** Sector representatives were asking about the cost associated and whether the database could be made a public good (reference is made to the ‘centralized approach’ of ALES, whereby the database could be hosted e.g. with the CRB) in order to enhance potential impact in relation to agri lending.

- **MFIs & SACCOs:** Leverage on the existence of MFIs and SACCOs in the rural areas as most of their client base is rural and active in some kind of agriculture activities. AMIR expressed interest in hosting such a database and give all its member institutions access, in order to strengthen their lending operations and capacities. NPLs are very high in the sector and AMIR thinks ALES might be a tool to control it, through a structured approach to agri lending.

- **Loan types:** The audience was interested in which loan types can be covered via ALES. The question was raised whether agriculture processing and agri-businesses could be covered with the tool. ALES was designed to assess agriculture primary production and while it can cover various activities of crops and livestock, etc. agriculture processing is not yet included in the tool.

- **Customization:** The ALES tool can be and has to be customized to each PFI, with regards to its agri lending policies and risk appetite. Further, the tool can be hosted on mobile devices, such as tablets, to facilitate an initial loan analysis (and decision) in the field in a timely manner. The tool can be also integrated into the core banking system of the PFI, either via a web-based tool that is interfaced with the CBS or with a fully integrated mechanism, which depends on the CBS of the PFI as well.

- **Cost of ALES:** The main cost driver of the ALES tool is the database development, as tech-cards need to be developed for each agriculture activity in each defined sub-region. This can easily be above 50 tech-cards for an institution with a country-wide network and an interest to finance a broad range of agricultural activities. Another cost driver is the software solution of ALES vs. an excel-based tool. There are also maintenance cost, as the database needs to be updated on a regular basis to maintain a realistic benchmark to score the farmers’ performance.

- **Climate-smart agri lending:** The discussion was raised about how the ALES tool pays attention to climate-smart or green agri lending practices, e.g. reduction of fertilizer usage, etc. The tool takes into consideration the recommended agriculture practices to achieve a maximum yield under the given conditions. Integrating climate-smart practices can be factored into the tool parameters, but need to be agreed on with the PFI.

Concluding, the tool is perceived as added-value and an important means to increase agri lending outreach and performance, from the government’s perspective the aspect of a database development for accumulation and distribution of public knowledge on the sector was more appealing.
DAY 2
BREAKFAST MEETINGS FOR BANKS, MFIS, AND INSURANCE COMPANIES

The focus of day two was exposing institutions to different approaches used to promote agriculture finance. The breakfast meetings were organised for three categories of institutions, and the issues and lessons included the following:

INSURANCE MEETING

Microinsurance is the next frontier, given that more than 80 per cent of the Rwandan population are potential customers of this proposition.

- A consortium of insurance companies to underwrite microinsurance products would spur the development of the microinsurance sector in Rwanda and increase overall insurance penetration.
- Microinsurance should be approached in a multi-stakeholder scheme where every stakeholder has well-defined roles and responsibilities (government, funders, insurance companies, reinsurers, and information providers such as the meteorological authority, etc.).
- There is a need to learn from other markets and understand how microinsurance can be promoted sustainably.

BANKERS’ MEETING

Key remarks made by the Minister of State for MINAGRI during the meeting:
- The GOR is supporting the regulatory framework and infrastructure to support agriculture development; however, there is a need for FIs to finance agriculture to enable the sector grow.
- The Minister urged FIs to identify the gaps and constraints that MINAGRI can address in order to accelerate agriculture financing in Rwanda.
- He emphasised the need for partnerships if agriculture finance is to be realised.
- Mr Fabian Kasi, CEO of Centenary Bank, comment that there is a need to make agriculture a strategic decision that can be pursued by the financial institution if it’s to be realised.
- A video was shown of CEOs from around the world and key issues in the video and discussion included the following:
  - Setting up agriculture finance units within a bank can streamline financing for agriculture, providing clarity on process, specialised agriculture experts, MIS, etc.
  - Information/data is key for decision-making to determine the feasibility of lending.
  - Institutional/regulatory framework is key but does not need to change to specifically support agriculture lending. This was greatly discussed and Mr Kasi observed that no change in the RAGs in Uganda was effected to favour agriculture specifically.
  - Mapping and segmentation of value chains are instrumental in supporting agriculture lending.
**MFI MEETING**

**Presentation:** The experience of MFIs in agriculture – Jonathan Nkoola, Team Leader of the Microfinance Challenge Fund

Mr Nkoola began by reminding the audience of the status of agriculture in Rwanda, highlighting its role in providing employment, its contribution to GDP, and most importantly, its contribution to reducing poverty in Rwanda.

Following the introduction, the presenter shared different models that have successfully been used by MFIs in the region to finance agriculture. Such models include contract farming, warehouse receipt financing, and inventory credit, among others. The main emphasis was that MFIs need to identify niche markets along the value chain. Moreover, understanding the needs of the different value chain actors and adapting product offerings to speak to those needs is a key factor in successfully financing agriculture. The need to leverage collaborative arrangements was also emphasised, to take advantage of the competencies of other stakeholders and to manage costs. The presenter concluded by demonstrating that agriculture finance can be profitable and reminded the audience that this is arguably the most viable option for rural transformation.

**Key Lessons**

- A lot needs to be done by different stakeholders on the demand side to make agriculture finance more attractive for MFIs. This includes organising farmers and linking them to financial institutions. Farmers also need to develop financial literacy in order to present funding proposals that are attractive to financial institutions.
- Since SaccoS are the closest financial institutions to farmers, banks and MFIs should establish linkages with them in order to ensure that more funding goes to agriculture.
- Climate change presents a real risk to agriculture and by extension to agriculture finance. Insurance companies need to come up with specific products to address existing and emerging risks in agriculture.

**DAY 2: OPENING REMARKS**

The second day of the conference was opened by Mr Eric Rwigamba, Director General of Financial Services, MINECOFIN, who reiterated the need to identify the problems facing the sector so that the Government, together with different stakeholders, can find ways of appropriately addressing them. On this note, the GOR has taken a stand to have all the sector stakeholders meet on a quarterly basis to discuss the evolving challenges and trends in agriculture. He also emphasised the need to create a platform that would enable the private sector to invest in agriculture with the support of government and donors.
Mr Steward stressed that affordable financial services are a fundamental aspect in dealing with low-investment and low-return production cycles. TechnoServe works with enterprising people in the developing world to build competitive farms and businesses.

Private sector involvement in agriculture is not only limited to financial institutions; it also includes companies that are involved in other parts of the supply chain. TechnoServe partners with such companies to provide better services to smallholder farmers.

Businesses have certain advantages that enable them to reduce costs and manage financial risks so it’s important for private sector companies to identify these advantages.

TechnoServe partnered with coffee cooperatives, however, they faced some challenges in the initial stages:
- Providing the cooperatives with large sums of the required working capital.
- Enabling farmers to access the market and sell their produce at the highest possible price.

These challenges have been addressed through fostering a partnership between the cooperatives and coffee exporters where the exporters offer fee-based services to the farmers and earn a commission after selling the produce. Some of the exporters, like Rwanda Trading Company, also offer financial services to farmers.

However, these trading companies were facing the problem of monitoring the money that is lent out to farmers across the country. To address this challenge, TechnoServe developed an SMS book-keeping system to help exporters monitor the funds in circulation and also to monitor the performance of cooperatives. TechnoServe hopes to extend its SMS book-keeping service to banks, in order to bridge the capacity gap faced by MFIs who cannot adequately reach all rural farmers. This is being done in partnership with AFR.

Key lessons
- Well-organised cooperatives are very important to the growth of the sector.
- Cooperatives need to choose their partners carefully to ensure that they achieve their objectives.
- The government can subsidise farmers using part of the revenue collected from the sector.
Some of the ways in which private companies can reduce or manage risks:

**Stock management:** this is done through warehouse receipt schemes where agricultural produce is stored and used as collateral.

**Quality management:** the companies can get involved in monitoring the quality of the produce by visiting the cooperatives to supervise processing, for example, in the case of coffee.

**Price signals:** private sector companies can offer farmers price guidance if they have the proper knowledge and access to information.

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### 5.1 PANEL DISCUSSION: SUPPLY CHAIN FINANCING AND USE OF WAREHOUSE RECEIPT SYSTEM TO FACILITATE AGRICULTURE LENDING

Experiences shared by Mr George Odhiambo, KCB and Olivier Ngoga, EAX

KCB finances various activities along the agricultural value chain; however, the bank is well aware that their efforts have not yet reached an optimal level.

- KCB noted that there was a lot of produce going to waste at the time of harvest. In an effort to reduce this wastage and support post-harvest activities, the Bank entered a risk-sharing partnership with AFR to support collection of harvest to the distributor, especially through forward contracts.
- It was realised, however, that farmers were buying produce from other countries in order to meet the supply needs for their forward contracts. KCB therefore partnered with IFC to support the production level.
- To ensure that this effort creates the desired impact the bank adopted the following tools:
  1. Timely loan approval within 48 hours of application;
  2. Phased disbursements, in accordance with the activity at hand; and
  3. Payments from the processor to the cooperatives are made through the bank within 72 hours of delivery of the produce.
- An efficient mobile-phone payment mechanism through which cooperatives can pay small-scale farmers is being developed to address the remaining challenge.

EAX is a marketplace that brings together buyers and sellers of agricultural commodities in Rwanda. In order to promote structured commodity trade in the country, EAX started a warehouse receipt system under which farmers can store their produce and use it as collateral for FIs.

- EAX provides warehouse receipt financing where FIs finance farmers with up to 70 per cent of the value of their commodities.
- EAX currently deals in commodities that can be standardised and commodities that can be stored over a long period of time, like maize, beans, and soya.
• They provide market information for the different market players and provide capacity building for financial institutions.
• This has been made possible through partnerships with various stakeholders including GOR and AFR, among others.

However, these efforts are not without challenges, some of which include:
• There are still low volumes of produce and therefore low loan amounts.
• High costs incurred by farmers in transporting agricultural produce to the warehouses.
• High collateral management costs.
• Unpredictable and fluctuating market prices.

5.2 REMARKS BY THE PERMANENT SECRETARY OF THE MINISTRY OF AGRICULTURE AND ANIMAL HUSBANDRY

Key remarks made by Mr Musabyimana included the following:
• He emphasised the need for all sector players to build commitment to promoting agriculture.
• He encouraged banks to expand their role in financing farmers in order to grow the sector and thus the economy as a whole.
• He stressed the need to disseminate knowledge and information to effectively reach farmers.
• He stressed the need for farmers to take advantage of the BDF service in order to improve their access to finance.
• He emphasised the need to encourage the role of well-organised cooperatives to improve outreach.
6. RISK AND RISK MITIGATION IN AGRICULTURE FINANCING:
OPPORTUNITIES IN EMERGING MARKETS AND CHALLENGES

PRESENTATION: MR JOHN MASABA, LION ASSURANCE CO. LTD (UGANDA)

Because agricultural activities are severely affected by weather changes, Lion Assurance Co. Ltd developed weather-based index insurance (WII) under the Kungula Agri-insurance Scheme, in an effort to mitigate risks associated with crop loss due to severe weather conditions.

While designing agriculture insurance packages, it is important for insurance companies to customise WII to suit a particular area, because weather conditions differ across different areas.

Key lessons to enable the success of agriculture insurance

- Need to use advancements in technology to monitor crop development across the country.
- Need to equip weather stations and ensure each station has a team of committed meteorological staff to collect and data on weather patterns over the years to provide to insurance companies.
- Develop partnerships to improve awareness and understanding of agriculture insurance. In the case of Uganda, development agencies have even gone ahead to pay insurance premiums for farmers.
- Need to develop affordable insurance packages because it is still expensive for farmers, especially considering other factors like interest on loans.

6.1 PANEL DISCUSSION: EXPERIENCE OF AGRICULTURE FINANCE

Mr Thomas Bazarusanga – Acre Africa, Mr Livingstone Nshemereirwe – AFR and Mr John Masaba – Lion Assurance Co. Ltd

- It is important to note that one of the major reasons for defaults on loan payments is crop failure as a result of drought. Acre Africa is an agency that focuses on product development for insurance in agriculture; in effect, their focus is further drawn to weather based insurance.
- Acre assesses the level of risk arising from drought and prices appropriate insurance packages. They also monitor and payout claims in the event of losses.
- As already noted, land in Rwanda is highly fragmented, thus increasing insurance costs associated with outreach. Acre therefore uses aggregators (which in this case are cooperatives) in order to sell their products to farmers. The products are packaged with business skills training for farmers.
• From their experience, AFR has realised that without insurance it is hard to invest in agriculture, especially at the production level.

• AFR embarked on an agriculture insurance pilot project in partnership with the Syngenta Foundation for Sustainable Agriculture, based on the example of Kenya’s experience.

• Emphasis was made on the need for insurance companies to develop suitable packages. In order for this to be done certain factors need to be in place:
  1. Insurance companies need to employ a team of specialised agronomists to take part in product design.
  2. In line with the initiative that waived withholding tax on agriculture insurance products, GOR also needs to reduce or waive VAT on these products to enable insurance companies to reduce the cost of premiums, thus making it more affordable.

Key lessons
• Insurance companies, with the help of government, need to mobilise farmers to understand and use agriculture insurance.
• Insurance companies should work with financial institutions to package their products together and, in so doing, reduce costs, therefore making it more affordable to farmers.
7. AGRICULTURE FINANCE CREDIT GUARANTEE SCHEMES

EXPERIENCES AND LESSONS LEARNT: MS JANET KANYAMBO – BDF

BDF is an initiative of the GOR and BRD to support and facilitate agribusiness through a number of services, most notably providing credit guarantees to farmers to improve access to finance. It supports viable agriculture projects to minimise default risks, and has a programme that focuses on women and youth in rural areas.

The fund is experiencing certain challenges which include:

1. Need for more financing because the fund extended its capital fund to support farmers.
2. Lenders sometimes guarantee loans that exceed the value of the guarantee.
3. Some farmers are still unable to finance the 25 per cent required to access loans using the fund, meaning that the fund is not fully serving its purpose.

7.1 PANEL DISCUSSIONS ON AGRICULTURE CREDIT GUARANTEES

MR GEORGE ODHIAMBO – KCB, MS JANET KANYAMBO – BDF, AND MR ALEXIS BIZIMANA – KCB

KCB highlighted that the BDF service has improved access to finance for many farmers. However, the loan size for the guarantee fund is not growing, attributable to the following factors:

1. Long loan approval process. Loan applications need to first be assessed by the banks and later the fund.
2. The cost of the guarantee is still high for farmers because they have to meet the bank costs as well.
3. The criterion of the fund does not match bank policy. BDF supports start-up businesses and yet banks do not.
4. The fund still provides for a low limit on the amount of money to cover the working capital for agriculture operations.
5. The stringent condition for BDF intervention that a client needs to first exhaust all the other forms of collateral before accessing the fund also poses a significant challenge as highlighted by one of MFIs. This is not very favourable for farmers.

Key lessons

1. The fund should have a clear focus, not simply to provide credit guarantee but also:
   - Build the bankability of the client, in so doing ensure that the client can continue to borrow from FIs even without the guarantee.
   - Find ways of making it more attractive for banks to lend to farmers.
• Financial institutions should not solely depend on the fund to increase lending to agriculture, but instead understand the risks involved and be able to do it without the fund.
• BDF should develop proper marketing strategies to create awareness of the various services and products they offer.
  • It should be noted that GOR is working towards improving the role of banks in financing the sector, which is still minimal (4 per cent) despite BDF and other initiatives.
  • GOR is reviewing the BDF programme to ascertain whether the fund is meeting the desired targets and how it can be improved.

7.2 ROLE OF COOPERATIVES IN ENHANCING AGRICULTURE LENDING IN RWANDA

LESSONS LEARNT: MS FRANCISCA MUKAKARANGWA, RWANDA COOPERATIVE AGENCY

Cooperatives continue to play a fundamental role in the growth of the agricultural sector. In Rwanda, 52 per cent of cooperatives are involved in agriculture, many of which serve rural farmers.

However, these cooperatives face a number of challenges, some of which include:
  • Price fluctuations and improper knowledge of the market within which they operate.
  • Poor governance leading to failure to comply with cooperative regulations.
  • Lack of professionalism among members.
  • Sustainability in the long run, since they are largely dependent on external support.

Due to the low number of people with access to finance across the country, the GOR recommended the establishment of SACCOs in each administrative sector (umurenge) to improve outreach. Most of the SACCOs operate with the support of cooperatives. It is therefore important to support and increase financing to SACCOs because:
  • They have closer proximity to rural farmers and so can reach more people at a lower cost.
  • They lend small loan amounts that farmers need and yet cannot be given out by FIs.
The Wood foundation is a charitable organisation that operates and manages two tea factories in Rwanda. The factories are solely supplied by smallholder tea farmers and account for about 24 per cent of the total tea produced in the country. The foundation's end goal is to eventually hand over full ownership of the factories to smallholder farmers. The management introduced an electronic weighing and collection system in the factory that increased transparency.

Certain factors responsible for demoralising the workers were identified and had started resulting in low yields:

- Delayed payments due to manual systems being used by cooperatives at the time.
- High costs incurred in collecting payments from cooperatives.

Through partnership with AFR and Tigo Rwanda, a core banking system was implemented by AFR and Tigo to link the system to e-wallet mobile system. This will quicken payments and reduce costs in collecting them. Implementation of the system is expected to begin in November 2015.

8.1 THE EXPERIENCE OF COOPERATIVES IN NYAGATARE

Nyagatare has a union of 25 cooperatives that has a partnership with KCB. The union produces about four tons per hectare of maize. The presenter emphasised the advantages of cooperatives:

- Banks are more willing to lend to farmers through cooperatives.
- It is easier for cooperatives to get guarantees
- They have legal status and can therefore take informed decisions.
- They provide a platform for farmers to share knowledge and experiences.

He appealed to other FIs to work with cooperatives to improve the sector.
9. MOVING FORWARD

A lot has been done by GOR, development partners, and other stakeholders to improve access to finance to the agricultural sector. It is important to note, however, that improving access to finance alone will not achieve the desired growth in the sector.

Despite the considerable achievements in the agriculture subsector, there are still other key issues and considerations that require further attention.

1. Lack of information at all levels in the sector. There is still a big challenge associated with access to information. Farmers do not have the necessary information as regards:
   - Market prices;
   - Products and services offered by different private-sector companies, for example, FIs, MFIs, EAX, agriculture insurers, BDF; and
   - Minimum business skills like record-keeping.
   This has limited access to finance and also affected the quantity and quality of output directly and indirectly. It also affects the credibility of the farmers as clients. Financial institutions should be supported to get the required knowledge and information in order to understand the demand side so as to supply needs-based agriculture financial products and services. This will require mapping of agriculture activities based on value chains to understand the requirements for finance.

2. Some risks in the agriculture sector are real and others are perceived. Therefore mitigating factors should be designed to address the real risks and support FSPs to build them in their lending processes.

3. Need for stakeholders to identify their role in the sector and streamline their agriculture financing strategies/activities based on their roles and objectives. A lot of effort is being channelled into agriculture but not yielding matching results. Various stakeholders in the sector need to partner in order to create the desired impact. This will enable them to deliver their services at lower costs and also improve outreach.

4. Credit guarantee is key to stimulating agriculture finance. The current facility arrangement is appropriate but is limited in scope and it should be accessed by MFIs and SACCOs to drive usage of their services. There is need to explore how best this facility can increase its outreach to facilitate smallholder farmers.

5. Risk mitigation
   - Explore use and adoption of technology to enhance credit access and risk mitigation i.e. end-to-end solutions.
   - Consideration to support FIs on training and coaching on strategies to leverage risk in agriculture finance.
   - Product bundling will be key to financing agriculture e.g. insurance with credit combined with guarantee, etc.
6. Institutional capacity building of partners to improve their operations to support agriculture lending is key and should be supported.

7. Given the diversity of agriculture, understanding the demand and market segmentation will be important to effectively finance agriculture.

8. Financing agriculture has to be a deliberate strategy of institutions for it to be operationalised. The institutional commitment, the right people, products and processes are key factors for the success of the agriculture finance business.

CONFERENCE CLOSING REMARKS: DR MONIQUE NSANZABAGANWA – DEPUTY GOVERNOR, BNR

Dr Nsanzabaganwa emphasised the need for agriculture finance as critical to the Rwanda's development agenda and recognised that everyone has a role in financing agriculture. Key observations included the following:

- The BNR will address issues on regulations and provisions to ensure that financial institutions can finance the agriculture sector.
- The success of financing the agriculture sector lies in collaborations among stakeholders and innovations. This should be the strategic direction pursued by stakeholders, for instance strengthening forums for discussion and engagement of stakeholders, and explore financing partnerships, among others.
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