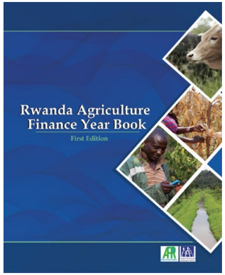
Rwanda Agriculture Finance Year Book

First Edition

Field Experiences

ACCESS TO FINANCE RWANDA

Institute of Policy Analysis and Research - Rwanda



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ACCESS TO FINANCE RWANDA

The Institute of Policy Analysis and Research (IPAR-Rwanda)
Kimihurura, KG 627St | P. O. Box 6005 Kigali - Rwanda | Tel: +250 789 099 704
Email: info@ipar-rwanda.org | Twitter: @iparrwanda | Facebook: IPAR Rwanda
www.ipar-rwanda.org

Access to Finance Rwanda (AFR)
KG 5 Avenue
P.O Box 1599 Kigali-Rwanda
ww.afr.rw

Foreword

Agriculture is essential for the Rwandan economy as it contributes to a third of the GDP. The sector employs more than two thirds of the workforce and agriculture led growth is expected to play a key role in reducing poverty and eradicating extreme poverty.

The Government of Rwanda is committed to transforming agriculture from subsistence to a productive, high value, market oriented farming sector which has an impact on other sectors. This will be achieved through several programs implemented through the Ministry of Agriculture and Animal Resources (MINAGRI) and its agencies but also with the help of the private sector, development partners and other key stakeholders.

To sustain growth, there is need for farmers to move from subsistence farming to commercial farming, which is possible when they have adequate access to financial services. Finance is needed along the whole production value chain such as purchase of quality seeds and adequate fertilizers, payment of labor, harvesting and transportation of produce as well as post-harvest handling.

However, even though access to finance is important for agriculture sector development in Rwanda, credit to the sector remains outstandingly small at only 6% of total commercial lending. This limits the sector's growth potential.

Recognizing that the agriculture sector faces critical challenges such as access to credit and having in mind efforts by different actors both private and public, led by the Government of Rwanda, Access to Finance Rwanda (AFR) and the Institute of Policy Analysis and Research (IPAR) Rwanda partnered to put together the Agriculture Finance book. The book, the first of its kind in Rwanda, is a great source of information on financing, innovations, challenges and learnings with regard to agriculture financing in Rwanda.

We believe the Agriculture Finance book will add great value to existing initiatives geared towards improving the agriculture sector. It is our sincere hope that the information contained in this book will particularly be useful to farmers, financial institutions and policy-makers.

We thank everyone who contributed their time and effort in one way or another, leading to the successful compilation of the book.

Thank you and enjoy reading!

Ms. Eugenia Kayitesi

Executive Director
Institute of Policy Analysis and Research (IPAR-Rwanda)

Ms. Waringa Kibe

Country Director
Access to Finance Rwanda (AFR)

Field Experiences

Source: BRD Annual report 2015: Basabira Laurent Rice Mill industries

Background

Agriculture is the most important sector of the economy of Rwanda. Eighty-six percent (86%) of the adult population is involved in agriculture whether as its main source of income or employment. Since 2014 agriculture has a growth of six percent (6%) and in the last quarter of 2018, it contributed twenty-seven percent (27%) to Rwandan GDP. The agriculture sector growth is hence essential if Rwanda wants to achieve its target set in NST 1 and national development programs. The development strategy of the country acknowledges that together with the creation of off-farm jobs, agriculture will play a key role in reducing poverty and eradicating extreme poverty. Improved productivity along the value chain in agriculture directly benefit the poor. It is a pathway out of poverty. This is supported by the findings of a survey conducted by the International Food Policy Research Institute (IFPRI), which states that: "economy wide growth led by the agriculture sector has a greater effect on poverty reduction than does the same level of growth driven by the non-agricultural sector".

One constraint to the agriculture sector growth is the access to financial services. Financing Agricultural limits come from both demand and supply factors. On the supply side, lending to farmers or agri-business shares similarities to lending to other sectors. However, given its nature of agriculture it has some differences and lenders often do not understand these differences. For example, as agriculture is seasonal and deals with nature, loan repayment conditions need to take into account that cash flows are linked to the agriculture production cycle. Lenders must hence structure their products to meet the production cycle of the activity they finance. On the demand side, smallholders may not be aware of the financing possibilities or may not provide the adequate guarantee. A big number of the farmers work in subsistence Agriculture and they are necessity entrepreneurs. If they want to become sale oriented and to grow, they have to borrow but they also have to save. Lack of information related to environmental risks, business capability of farmers, value chains, price risks, yields risks etc. creates market failures, which result in insufficient credit, low levels of investment and low productivity of agriculture.

The above is illustrated by the low level of loans to the Agriculture which account for only an average of 6.15 % [1]of the total loans in the country (from September 2014 to march 2018) (BNR, 2018). Agriculture finance is a key challenge to enhance productivity in the sector and to reach the Rwanda targets in terms of growth, poverty reduction etc.

While various agriculture initiatives have been implemented by the Rwandan government, financial institutions, international development partners, non-governmental organizations and other associations, there is a need for a deep analysis and documentation of such initiatives. It is against this background that Access to Finance Rwanda (AFR) and the Institute of Policy Analysis Research (IPAR-Rwanda) collected and analysed agriculture financing initiatives in Rwanda which are compiled in the first edition of the Agricultural finance book. The have supported the Ministry of Agriculture and Animal Resources in collecting and sharing agriculture initiatives in Rwanda, through an agriculture finance book. The book has been compiled and produced with collaboration of different agencies that are involved in the financing of different activities across the agricultural value chain. Organizations that have provided valuable inputs in terms of quantitative figures on access to finance and the amount of

10 From both the banking sector and microfinance sector (MFIs and SACCOs).

agricultural credit that has gone to the different actors in the value chain include the National Bank of Rwanda (BNR), Rwanda Development Bank (BRD), and the National Institute of Statistics of Rwanda (NISR). Other organizations that have provided the case study experiences include Diary cooperatives such COOIAB and National Agricultural Exports Board (NAEB), Bank of Kigali Techouse in collaboration with the Rwanda Agricultural Board (RAB) have provided useful insights on the functioning of the "Smart Nkuganire platform" which will go a long way in de-risking agriculture in Rwanda and improving efficiencies in the distribution of inputs like seed and fertilizers in Rwanda. Although the information has been collected from different actors in agriculture financing chain, the experiences and lessons provided in this book will go a long way in improving the functioning and performance of the agriculture sector in Rwanda. This is because agriculture is a critical sector where all activities such land preparation, planting, agronomic practices, harvesting, post-harvest handling, market and export are all interlinked. Improved access to finance and credit drives all the above activities and cuts across all the activities in agricultural value chains. It is for this reason that the Ministry of Agriculture and Natural resources has endorsed the initiative and publication of the Agriculture Finance book.

The book with financial availability is planned to be published every year to ensure robust market engagement, continuous knowledge sharing and learning. This is intended to increase knowledge and good practices implemented in Rwanda in the area of agriculture financing.

The book provides a repertory of the past and expected trends in agriculture financing in Rwanda, and hence shows the actual priorities of the sector. The book also provides experiences and practical examples put in place by different types of actors in the sector. These experiences are actions taken by farmers, cooperatives, banks, private investors, public sector development partners. They showcase the environment of agriculture financing in Rwanda.

The Agriculture Finance Yearbook hence aims at sharing knowledge of existing trends and practices in Agriculture finance through a description of Agriculture financing trends and activities. The book therefore aims at informing all readers with interest in Agriculture Financing including decision makers, farmers, investors, consumers and development partners.

This section describes field experiences of BRD, BDF, UAP insurance and Urwego Bank. It presents some activities of these institutions in agriculture financing, the impact of their products, the challenges they face and the lessons learned from their work in Rwanda. The experience of BDF and BRD, as key instruments of government investments, is crucial to understand successes and challenges in achieving the government targets in financing agriculture. The experience of UAP insurance gives an insight of the applicability of insurance in the agricultural scenery. Lastly, the experience of Urwego Bank provides some challenges and lessons to learn from lending to smallholder farmers.

3.1. Development Bank of Rwanda (BRD) financing agriculture

The Development Bank of Rwanda (BRD) is the investment arm of the government of Rwanda, with a mission to be a trusted and strategic partner in the development of the country. This mission has to be achieved by availing financing and advisory services to dynamic entrepreneurs in key priority sectors. Created in 1967, the bank is dedicated to providing financing either as a loan capital or as equity to viable economic development projects, specifically those established under priority sectors in the EDPRS II, and its successor NST-1. To achieve this, the bank has to work with the government and other stakeholders to facilitate Rwanda's economic transformation with the general objective of creating jobs, reducing poverty and supporting the emergence of new businesses.

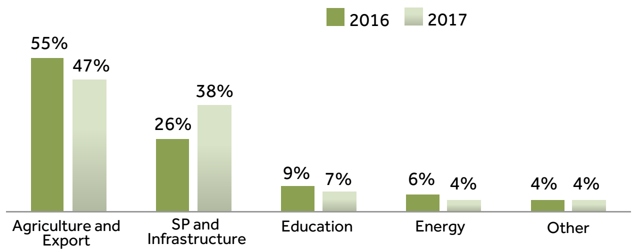
In 2015, BRD sold its commercial retail banking activities in a restructuring process with an aim to refocus on being a purely Development Finance Institution (DFI). Next to this, the bank took over the management of national student loan fund from the Rwanda Education Board (REB). It was against this background that it elaborated a five-year strategic plan (2016-2020) fully aligned to the government's priority sectors. These priority sectors include investments that are aimed at accelerating export development, catalysing agricultural financing, promoting affordable housing, managing and facilitating financing for education loans, and increasing investments in energy development.

3.1.1. Financing the agriculture sector

Agriculture is one of the five priority sectors of BRD and it is a key component under the Vision 2020 and the NST-1, and will certainly remain in the coming Vision 2050. For instance, one of the six pillars of Vision 2020 is to develop a "productive high-value and market-orientated" agriculture by 2020. (MINECOFIN, 2012)

In this context, BRD is committed to invest over USD 170 million during the 2016 – 2020 period. It was in this context that in 2017 BRD signed a Memorandum of Understanding (MoU) with the Private Sector Driven Agriculture Growth Project (PSDAG) of the United States Agency for International Development (USAID), to increase agricultural financing, hoping to increase financing and private investments in the agriculture sector. In this regard, the PSDAG will offer capacity building support to SMEs in difficulty to be active in the agriculture sector and do the monitoring and evaluation of BRD's development impact.

Figure 11: Concentration of gross loans among sectors of economy at BRD (2016 and 2017)



Source: BRD financial reports

11 The total gross loans for all the sectors were 166 Billion in 2017 and 160 Billion in 2017. Agriculture gross loans were 7% in 2017 and 17% in 2016 while export gross loans still represented 39% in 2016 and 2017.

BRD has focused its efforts on making its products not only accessible, but also affordable and has given an overall positive trend of growth to these efforts. The bank considers itself a key catalyst for the growth of the agricultural sector, partly because, unlike commercial banks, BRD also deals with start-ups rather than just existing businesses but also because agriculture remain the main lending sector of BRD (i.e. represented 47% of the total gross loans of BRD in 2017) . Through the agriculture department, the bank has financed projects worth over Rwf7 billion during the financial year 2016. These projects are categorized into crop production, livestock, agro-industries, post-harvest infrastructure and agri-vet trade finance (BRD, 2016).

Of the Rwf 7 billion, 14% went to livestock where the bank financed projects in poultry and cattle among others. These projects were expected to generate employment, increase production of animal and poultry products needed to fight malnutrition and boost income. 57% went to agro-industry and post-harvest infrastructure; the projects financed under this category include a modern abattoir to improve hygiene in mean handling and an electronic warehouse receipt system to streamline trading in agriculture produce. The rest went to refinance microfinance institutions in order to increase access to finance by smallholder farmers whose efforts account for most of the country's farm produce.

Under the BRD's five-year Strategic Plan, the bank identified three key constraints faced by the agriculture sector and has designed three interventions aimed at unlocking agriculture financing and maximizing the agricultural sector potential. These interventions include:

(i) Supporting agro-processing industries to increase their value addition and agricultural production for domestic consumption and exports.

In order to address major constraints in agriculture, BRD targets the whole agriculture value chain (farmers' cooperative, distributors of inputs, agro-processors, etc.). For instance, BRD encourages contract farming and support modernization of the diary sector to financing agro-processing plants. On the farmers' side, BRD aims to increase the quantity and quality of the production. It involves providing funds to value chain activities, specific linkages initiatives and value addition projects initiated by farmers coupled with technical training, capacity building and advisory services to farmers. On the agro-processing side, the bank uses more aggressive strategies to strengthen the sector, with the main aim to boost added value production which is planned to serve as an effective means to achieve economic transformation and sustainable livelihoods.

(ii) Providing risk management programs in order to unlock financing

Since financial institutions perceive the agriculture sector to be highly risky, BRD is developing strong risk mitigation strategies to help the sector be more appealing to investments and other forms of support. The bank's intervention consists of providing loans to risk mitigation projects such as pesticides, fertilizers, insurance related costs, etc. This aims at minimizing and mitigating the risks associated with the crude financing of agriculture projects. For instance, the interventions focus on lifting the sector to achieve an annual growth rate of 8.5% fertilizer application (kg/ha/annum).

Rwinkwavu irrigation scheme. Source: Hope Magazine

(iii) Promoting mechanization to boost agricultural productivity.

The intervention involves allocating funds to irrigation projects, to both local and imported agriculture inputs, providing leasing of machinery and equipment, etc. In order to achieve the government target of 100,000 Ha of land irrigated in 2018, the bank lends to cooperatives and/or other investors carrying out irrigation projects. For instance, BRD supported cooperatives which do farming activities in a wetland in Rwinkwavu sector, Kayonza district with a tune of over Rwf 12 million, as a solution to the shortage of rain and hunger.

Another feature of modernization is the partnership of the bank with local institutions such as the East Africa Exchange (EAX) in the post-harvesting stock as well as partnerships with farmers such as Milk collection centres and the KINAZI Cassava plant.

3.1.2. BRD's Agriculture financing channels

Outlook and Approach to agric Financing. Source: BRD (2017)

In terms of beneficiaries, BRD lends to the agriculture sector though 3 categories of customers: Individuals (i.e. crop growers or livestock farmers), Cooperatives and Companies (especially Agro-processing companies). The bank currently focuses on lending to cooperatives, which have the ease of being involved in different agriculture value chains all over the country.

With reference to providing financing, the bank can lend directly to the client (i.e. individual, cooperative, company) a minimum loan of Rwf 15 million. As per its definition, this loan excludes clients such as small and medium enterprises and smallholder farmers, who mostly need smaller amount of money even if they invest in economically viable projects.

Refinancing Micro-Finance Institutions

BRD introduced MFI refinancing mechanism, which is basically about indirectly disbursing finances through financial institutions and implementing agencies. This mechanism is rather ideal since the bank provides affordable and long-term lending which makes it easier for MFIs to manage micro-loans and reach more beneficiaries. Moreover, it enables the bank to increase the minimum loan amount to Rwf 50 million per client.

The rationale behind this is based on the fact that MFIs are major lenders to the agriculture sector. It is easier for MFIs to extend loans as low as Rwf 100,000 or less to farmers. In terms of impact, over the past seven years BRD has disbursed over Rwf 10 billion into refinancing and the mechanism aimed to contribute to the access to finance, to financial inclusion and to impact rural development and agriculture financing. In theory, the product has a multiplier effect in the sense that it increases access to credit by SMEs and smallholder farmers, which contribute to improved value addition of the agriculture production, thus enabling rural households to increase their income. In return, the government collects more tax revenues to spur employment opportunities and entrepreneurship for the youth and women.

3.1.3. Experience in the sector

The experience of BRD is rather crucial in understanding the financing of high level actors in the agriculture value chain as opposed to small-scale farmers.

12 **Editor's note:** The impact of BRD's refinancing on agriculture needs to be assessed further through investigating the breakdown of the loan portfolios of the micro-finance institutions that obtain the funds. This will help determine if these funds are further cascaded down to the agriculture sector and which actors in the agriculture value chain are able to access these funds.

a. Drivers of success

Monitoring: From the moment the bank issues loans, it ensures financed projects are sustainable. The bank does this by closely monitoring the implementation of the projects and where it finds it necessary, is willing to share the challenges with the customers to ensure sustainable implementation of the projects.

Capacity building: The bank also provides capacity building support to the beneficiaries of the projects that it finances. It does this by hiring external experts to jointly work with their qualified and competent staff to train farmers on agricultural modernisation. This is done to help the clients who do not have the technical know-how and skills and cannot, therefore, implement their projects without assistance.

Box 1: Refinancing LETSHEGO Ltd

Letshego Rwanda Limited was established in Rwanda in 2004 as a subsidiary of Letshego Holdings Limited (LHL), a Pan-Africa financial services group headquartered in Gaborone, Botswana. It has been benefiting from BRD's refinancing scheme since 2011. Letshego Rwanda is renowned for supporting its customers by offering innovative and competitively priced loans between RWF100, 000 and RWF37.5 million. It mostly serves micro and small-scale entrepreneurs who borrow to fund their businesses in various activities including in agriculture, affordable houses and to meet their education and health needs.

In 2016, Letshego Rwanda had opened over 10,000 saving accounts with deposits standing at RWF1.3billion. Through issuance of savings, borrowing, payments and micro-insurance solutions, Letshego Rwanda aims to support the Rwandan Government's drive to eradicate poverty by fostering its customers' active participation in economic activities.

Pipeline of Agriculture sector projects (Letshego Rwanda Ltd) by the end of October 2016

Geographical coverage (province)	Number of clients	Consolidated loan amount (Rwf)
Kigali city	2	68,000,000
Eastern	13	170,000,000
Western	28	282,000,000

Northern	32	207,000,000
Southern	17	172,000,000
Total	**95**	**899,000,000**

By the end of October 2016, of the 262 credit applications made to Letshego Rwanda under different sectors, 92 were related to projects under the agriculture sector and were expected to benefit from affordable rates thanks to the BRD lending to Letshego at the interest rate of 12%. Geographical coverage shows that the biggest portfolio is spread across the other provinces of Rwanda other than Kigali City hence increasing BRD's outreach for rural development and improved livelihoods of small holder farmers.

Letshego Rwanda agriculture loans can go from a minimum of Rwf 500,000 to a maximum of Rwf 35 million for a term period that can vary between 1 and 36 months.

Editor's Note: From analysis of the 92 projects that have been funded by Letshego to a tune of Rwf 899 million, it is highly likely that these are large agricultural projects. More efforts need to be put into monitoring and evaluation of the BRD's refinancing program to ensure that small holder farmers actually benefit from this initiative.

Specific products: Given that every value chain has a specific production cycle and seasonality; the bank provides different terms and products accordingly.

Risk management: BRD works with guarantee funds such as BDF to regulate the loan interest rates depending on the economic situations so that the lending institutions do not levy too much burden of loan repayments on farmers.

b. Challenges

Riskiness of the sector

The nature of risks varies depending on the client and the value chain specificity, but some of the risks are common particularly to small farmers. The common risks include lack of attractive collaterals, lack of technical know-how, pasture and infrastructure, etc. Rural farmers are, for example, not keen on using the newer technology that attracts investors.

Another challenge is that farmers do not have enough capacity to raise their own contribution. As is the case for all lending policies for banks, a borrower needs to contribute a certain percentage to his project. BRD has tried to lower the contribution of the customer down to 30% of the project value so that the bank can finance the remaining 70%. This is useful mostly for start-ups as most of them do not have credible bank statements to present to financial institutions for loan application. However, even if the client's contribution has been lowered to 30%, many clients fail to raise it on their own.

Insurance

Another issue that BRD faces is finding adequate insurance, which is reportedly seen as a major issue in agricultural financing as most insurance companies in Rwanda are not comfortable with the level of risk associated with agricultural financing. In order to circumvent this issue, BRD partners with insurance companies such as UAP and SONARWA, which are two of the major players in the insurance business.

Coordination and accountability

Given the collaborative nature of the work of the parties involved, coordination with so many parties involved can be an issue for BRD and can lead to difficulties in effectively holding each of them accountable their roles.

3.1.4. References

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3.2. BDF: Guarantee financing agriculture SMEs

Source: BDF (2015)

In 2011, the Government of Rwanda, in partnership with the BRD, combined Advisory and Business Development Funding services to create the present Business Development Fund (BDF). The rationale behind creating BDF was mainly a strategy to implement the National Small and Medium Enterprises (SMEs) development policy that aims to support SMEs in accessing credit from financial institutions. BDF's main responsibility is to help SMEs to access credit by improving the availability of financing alternatives at reasonable costs. BDF's services include the following:

a. **Credit Guarantee Funds.** BDF gives guarantees on loans for fixed assets or working capital. It combines all existing government consolidated funds for SME financial support that were spread across various ministries and agencies. These include the SME Guarantee Fund, the Agricultural Guarantee Fund, the Rural Investment Facility, the Women's Guarantee Fund and the Retrenched Civil Servants Guarantee Fund;

b. **Managing matching grants** such as the Rural Investment Facility (RIF) grant, the PRICE grant, the post-harvest grant and the Rwanda Diary Development program grant;

c. **SACCO refinancing** aiming at increasing the lending capacity of SACCOs to specific individuals (i.e. women doing informal cross border trade) and to fund toolkits and equipment;

d. **Quasi Equity** support to start-ups and agribusinesses;

e. **Integrated Craft Production Centres (ICPC) equipment leasing facility** which is basically a leasing facilitation to ICPCs (Udukiriro) allocated in every district. It provides training and conducive environments for technical start-ups;

f. **Advisory services** such as capacity building, investment advisory and microfinance development and;

g. **ICT services** at branch levels where they provide internet training, internet connection and public services such as Irembo and company registration services.

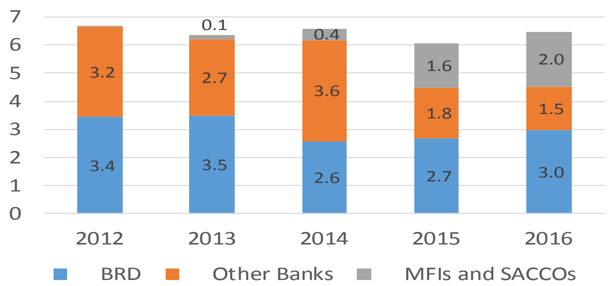
3.2.1. Facilitating Agriculture SMEs

BDF offers different financial services to agricultural SMEs, mainly through guarantee funds, post-harvest grants and quasi equity, which makes it easier for agicultural entepreneurs to get collateral and expand their businesses.

3.2.1.1. Agriculture Guarantee Fund(AGF)

The AGF represents by far the largest share of guarantee funds provided by BDF. In 2016, BDF provided agriculture guarantee funds worth Rwf 6.5 billion representing 33% of the total lending to the agriculture sector. These guarantee funds are mostly funded through government programs, which explains the high contribution of BRD as the main user of the funds. Although it has decreased, the share of BRD was 46% of the total guarantee for the agriculture sector. In terms of risk sharing, the BDF offers guarantees in a range of 30% to 75% of collateral, depending on the category of applicants and the funding source. For instance, for companies and cooperatives, the maximum guarantee is 50%. For individual men above 30 years, the maximum guarantee is 50% of collaterals whereas for youth and women, people living with disabilities, retrenched civil servants, demobilized soldiers and genocide survivors, the maximum guarantee is 75%.

Figure 12: Channels of BDF agriculture guarantees issued (in billion Rwf) 1



Source: World Bank (2017)

The above graph indicates that the influence of banks into lending to agriculture is being substituted by MFIs and SACCOS through the years. The fund supported 1,375 projects in 2016 and the average value of the guarantee was of Rwf 3.5 million, which reflects the increasing relevance of the micro lending of MFIs and SACCOs. In fact, BRD's and other banks' average of agriculture guarantees were respectively of Rwf 74.5 million and Rwf 29 million.

3.2.1.2. Grants

In terms of grants given to agriculture projects, RIF grant and the PRICE grant represent the largest share of the total matching grants managed under BDF. In 2016, these grants respectively represented 62% and 12% of the total grant portfolio of BDF (6.8 Billion Rwf). BDF provides a maximum grant of USD 40,000 on capital investment (warehouse, machine, transport),

13 **Editor's note:** Although guarantee funds channeled through MFIs have seen a slight increase over time the proportion of guarantees channeled through BRD and other banks have reduced over time. This implies that the proportion of guarantee funds has largely remained flat over time. Although demand side constraints have been raised, the Business Development Fund has to look internally in order to increase flexibility within which guarantee funds can be accessed better by agriculture value chain actors

depending on the size of the investment. For instance, the maximum grant is USD 2,000 for a capacity building project for private led business. As for cooperatives, the maximum grant for capacity building goes up to 80% of the total budget but BDF directly pays to the service provider.

Rural investment facility: This is a facility that was granted on behalf of the government's financing for agriculture where BDF covers 25% of the investment in an agricultural project along the whole value chain. However, this facility does not cover the working capital or operating costs (e.g. fertilizer input costs or wages) given that its main purpose is to provide incentives for both financial institutions and entrepreneurs to make productive investments in agriculture.

The Project for Rural Incomes through Exports (PRICE) grant: The grant, previously managed under the Ministry of Agriculture, focuses on export crops, namely coffee, tea, silk, and horticultural crops, principally for local and regional markets by providing tailored and sustainable financial services to participating stakeholders. It finances the primary production and working capital by covering 50% of the loan.

Post-Harvest grants:

PASP beneficiary: Horticulture farm. Source: BDF 2016

1) **The Post-Harvest and Agribusiness Support Project (PASP) grant:** The PAS-Project is set up

and financed by MINAGRI and the International Fund for Agriculture Development (IFAD). It aims at addressing the challenges of post-harvest losses in order to increase rural income and create new investment and employment opportunities for vulnerable groups, including the landless poor. BDF comes in to manage and provide financial incentives for financial institutions and entrepreneurs to co-finance PASP-facilitated business plans. The PASP grant targets poor farmers and members of cooperatives who own small land plots, but the grants are awarded only to groups with business proposals that are strong enough to be awarded bank financing. It targets priority crops including of potatoes, maize, beans, cassava and dairy products. These crops and dairy products are mainly found in 12 districts around the country; these are Nyagatare, Gatsibo, Kayonza, Kirehe and Ngoma in the Eastern Province, Kamonyi, Muhanga, Ruhango and Nyanza in the Southern Province as well as Musanze in the Northern province and Nyabihu and Rubavu in the Western Province. The projects that are eligible for the PASP grant are transformation units, machinery for processing, transportation, climate resilient equipment (water tanks, solar systems), cycle systems, capacity building, and capital investment (drying ground, Sheller).

2) **Post-Harvest Climate Resilient Agri-Business (PHCRAB).** Eligible projects for the PHCRAB grant are Moisture meter, quality control, drying ground, collapsible dryers, palette, capacity building to name but a few.

Rwanda Diary Development Project: This grant is divided into three sub-categories as follows:

1. **The private led business grant**: To be eligible, the condition is to have a business plan as a private

person and to include a cooperative as a supplier in the business so that it can benefit from the project. The private person gets a maximum grant of 30% whereas the cooperative gets 50%.

2. **The cooperative led business grant**: For this category, there has to be a Memorandum of Understanding (MOU) signed with the cooperative. In this category, big cooperatives are given a maximum grant of 50% whereas small cooperatives are given up to 80%.

3. **The joint ventures grant:** To be eligible, the condition is to be registered at the Rwanda Development Board (RDB) as a joint venture between a cooperative and an individual. The grant is given to the joint venture.

3.2.1.3. Quasi-Equity

The quasi-equity segment for the agriculture sector started in 2016 and targets the youth in agribusiness who are investing in the agricultural projects. The service is designed to encourage fresh graduates with an agricultural background to set up agribusiness projects. The program provides quasi-equity financing by availing a grant of 30% of the loan, 60% convertible shares of BDF, and the individual has to contribute at least 10%. The application process starts at the District level, where the district committee of stakeholders shortlists successful applications to be submitted to BDF. Then, BDF analyses the feasibility of the shortlisted projects and selects the ones to be funded. After the funding, the monitoring is done by the district committee of stakeholders, of which BDF staff are members. The beneficiaries are supposed to pay back in a maximum period of five years and can get a grace period of a maximum of 6 months. In this facility, BDF supports shareholders or investors in an agricultural company. The projects which get this type of financing include aquaculture projects, livestock and agriculture farming and horticulture and agro-processing projects. So far, BDF has provided quasi-equity to 25 companies and 70% of these are in agribusiness.

Eligibility criteria:

- It should be an agribusiness project owned by a Rwandan citizen;
- The owner of the project must be a secondary or a university graduate but who have spent at least 2 years after graduation;
- The project should demonstrate job creation potentiality (in a position to employ a reasonable number of people especially university graduates);
- The beneficiary should be a cooperative or a company;
- The project should have a sense of innovation;
- The project should be a start-up with less than one year of existence.
- The project should fall under combined production into agro-business or agro-processing.

3.2.2. Financing Process

BDF does not directly interact with SMEs; it signs a Memorandum of Understanding (MoU) with financing institutions. Under the condition that if an individual/ SME has not enough collateral to cover the loan, BDF can subsidize as much as half of the loan requested for by the borrower.

After providing the guarantee to the borrower, BDF, through its Advisory, Monitoring and Evaluation (M&E) departments, ensures a proper use of the service by visiting the business, having meetings with the beneficiary and monitoring its profit and working capacity on a regular basis. The advisory department advises on the procedure manually, providing the trainings and capacity building support while the M&E department is in charge of monitoring and visiting companies to ensure good performance; they can even restructure in case of low performance. However, it is different from the credit guarantee because beneficiaries are financial institutions' clients and BDF as a funder only gets a quarterly report from the financial institutions. Thus, BDF can monitor the guarantee only after the quarterly report; then if the performance of the client is low there can be joint visits with the financial institution.

Different workshops and trainings are organized on a regular basis at the district level to sensitize people on BDF projects. In 2014, BDF opened branches in all the 30 districts of Rwanda that are coordinating the farmers at the grassroots level. In addition, there are advertisements on radio and television which BDF uses to spread messages to the public.

3.2.3. Experience

Overall, BDF funding is project based; thus the turn-up will change from one project to the other independently of the fact that the business plan presented to the financial institutions is viable or not. For instance, in the 2014 fund portfolio, the agriculture guarantee fund portfolio out of the Rwf 28,790 million granted as fund only 0.0091% was not performing while grants (PRICE and RIF grants) were performing much better.

In general, the sustainability of start-ups can be challenging. It is even more challenging in the agriculture sector with the weather uncertainty. In addition, when starting a business, entrepreneurs do not do enough market analysis before engaging in this sector even when they are asking for a loan. Equally, companies tend to start without adequate preparation of their business plan, with low managerial skills and limited working capital to maintain productivity. Nevertheless, the projects of which business is already running and for which entrepreneurs need loans as additional financing tend to perform much better.

However, despite challenges, agriculture is a good investment and a good sector. It encounters several challenges mostly at the primary production stage but there are several opportunities at other stages. With the help from different stakeholders such as insurance companies, it is possible to share the risks that the banks fear in order to increase access to finance in the sector. This will encourage individuals to invest in the sector and decrease the reliance on banks for collateral in order to lend to the agriculture sector.

3.2.4. References

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3.3. URWEGO BANK: Financing Smallholder Farmers

Rwanda Rice Paddies. Source: Kiva

Urwego Bank is a Rwandan Microfinance Bank licensed by the National Bank of Rwanda. It was created in 1997 by World Relief Rwanda under the name *"Urwego Community"*; the bank focuses on serving small entrepreneurs under served by the formal banking sector. The services offered by Urwego Bank include deposit accounts, savings accounts, individual loans, home improvement loans and education assistance. The bank also offers insurance services, business training and HIV/AIDS related training. It is the largest Microfinance Bank in Rwanda and has branches and credit offices throughout the Country.

Currently Urwego Bank has three projects that facilitate a sustainable access to finance through loans: the group loan, the individual loan (SMEs) and the agriculture loan.

- **Group Loans:** This is basically a solidarity guarantee. The product was the first to be introduced by the bank when it started its operations in 1997. It targets a group of 10 to 15 people who are not necessarily investing in the same activity but everyone in the group acts as a guarantor of the rest of the group making sure that every group member will repay their share of the loan. This type of loan has a solidarity grant (social grant) incorporated so that a group of people who do not have the ability or enough collateral to secure the loan are subsidized from the grant. Depending on the agreements, the loan can be repaid on a monthly, weekly or quarterly basis. However, a single member cannot hold more than 35% of the total group loan. The solidarity loan/group loan offers a loan that can go up to Rwf 200 million.

- **Small and Medium Enterprises (SME) Loans/ individual loans:** The product was introduced in 2000 as an extension of the group loan to facilitate individuals whose businesses were growing and wanted more financing to expand it. However, their business was not big enough to raise the interest of banks but then required more than the maximum amount allowed in the group loan. This also facilitated farmers that did not have solidarity groups to access loans immediately. SMEs or an individual can borrow up to Rwf 60 million mainly because the beneficiaries are considered to have the capacity to afford a loan from commercial banks.

3.3.1. Lending to the agriculture sector

The analysis of Urwego Bank's loan disbursement indicates that most of the bank's loans go to the agricultural sector. The driver's for the bank's interest into the sector include i) the fact that over 70% of the Rwandan population are employed in the agriculture sector, ii) the government's favourable agriculture policy which fosters agriculture as a business and iii) the smallholder farmers are the most financially underserved population in Rwanda. Urwego Bank's lending to the agriculture sector is designed around 3Ps (People, Products and Processes).

3.3.1.1. People

With people, the bank implies having specialized staff that understand the sector; thus among 15 agricultural finance specialists, 14 have to be agronomists by training. The main clients of the bank are: a) farmer cooperatives registered with Rwanda Cooperative Agency (RCA), b) farmer groups guaranteed by Cooperatives, c) agro-dealer cooperatives and individuals and d) individual farmers. The bank also partners with the government (both central and local) and development partners.

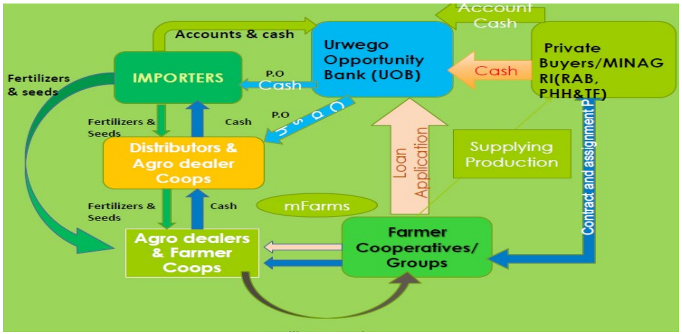
3.3.1.2. Products

There are three types of products offered by the bank value chain financing (i.e. involve financing farmers of a specific value chain) to smallholder farmers through cooperatives; the cooperative acts as guarantor for its member and for farmer groups (Amatsinda y'ubuhinzi). In these products, the bank finances activities such as acquisition of fertilizers and seeds, pruning activities and post-harvest activities. These products target 4 crops: maize, rice, potatoes and coffee. The choice of these crops is based on three factors: i) the fact that they have the most organized structure of value chains. For instance, in the rice value chain, farmers work together in cooperatives and no one can take home rice for side selling and they have one supplier, which makes it easy to trace the money received; ii) supporting the government programs as these crops are under the CIP program iii) there is strong markets where farmers can sell these crops; and iv) the fact that these crops have regional outreach as each of them is more accessible in the 4 provinces of the country.

3.3.1.3. Process

Considering the smallholder farmer financing through cooperatives product as an example. Here the rationale is that through cooperatives, the bank can reach out to approximately 1,000 people at once. This is easier, quicker and more efficient in the sense that the cooperatives know better their members and can, therefore, monitor the loan. Here the agriculture loan is offered to a farmer who is an active member of the cooperative that fulfils the requirements of the Rwanda Cooperative Agency. The registration is through cooperative leaders with complete identification, the Universal Parcel Identifier (UPI), the type of value chain a farmer wants to grow, the expected yield quantity and the amount of money they want to request for. Cooperative leaders then analyse the file to establish whether this specific individual will be able to repay the loan in due time according to their output. If it is not the case, cooperative leaders advise the member to request for a loan that is lower than what they intend to borrow so that they can repay it easily.

Figure 13: Urwego Agriculture Loan Process



Source: Urwego Bank (2015)

After the analysis, the cooperative gives accreditation to the list provided, and the leaders of the cooperative apply for the loan from Urwego Bank. In return, Urwego Bank's agriculture specialists visit respective farmers who applied for the loan to verify if the amount of money requested for is convenient and proportional to the expected yield and the estimated volume of the harvest a farmer provides will be obtained. However, it is not mandatory for every member of the cooperative to request for a loan. Only the ones in need will apply for it and this implies that they will be the ones affected by the reimbursement that will be taken from the money generated by the harvest, which money they will deposit into the cooperative's account.

After the loan is granted, it is transferred to the cooperative's SACCO account and then distributed to farmers according to the amount requested for. However, the money is given to the cooperative for the benefit of the farmer. If the loan purpose is to purchase fertilizers, the bank works directly with the fertilizer suppliers and purchases the quantity request on behalf of the farmer.

In their respective cooperatives, farmers collectively collect the money from the production sold to the cooperative's clients or at the local market. The loan allocated to every member is then deducted from the earnings of the farmer by the cooperative depending on the methods of payment the farmer agreed on (daily, yearly or quarterly). The money is then collected by the cooperative and paid back to the bank as per the agreement, specifying the name of the farmer and the amount paid. In case the payment to the bank delays, the cooperative writes an explanatory note to the bank, giving reasons why the payment will delay and the bank extends the loan payment period.

3.3.2. Experience

Currently, Urwego Bank is providing credit to over 31,000 farmers, from 500 farmers who applied for individual loans in 2010, and 80 cooperatives in the agriculture loan department, from 2 cooperatives in 2010. The agriculture loan portfolio represents 20% of the whole portfolio and risk share represents only 0.2%.

From its experience, the bank has learned that agriculture business has to be considered as any other business and the risks in the sector can also be found in other sectors. The bank advises that instead of running away from risks in the agriculture sector, it is rather better to find a way to mitigate them. This can be done by designing sector based products and allowing other forms of collateral such as contracts with off takers or the production at harvest to be used in securing credit for agricultural projects.

Lending to smallholder farmers is rather difficult for the moment unless it is done through a cooperative. This is mostly caused by the fact that smallholder farmers do not have enough capacity to secure collateral and they usually need smaller amount of money which is costly to financial institutions to follow-up for recovery. Lending through cooperative is therefore the most secure option to make it easier for financial institutions to recover their money since cooperatives can act as guarantors.

Another important factor in agriculture financing in the bank's perspective to limit the risk associated with lending to the farmers is the use of agriculture specialist staff members. They represent a valuable asset into lending to the sector. Loan applications are usually rejected not because they are risky but because the loan agent fails to defend it in front of the bank's board. Further, specialising staff who double as loan agents are better positioned to make follow-up and to understand the main reasons of the non-repayment of the loan. The team therefore has to make field visits so as to have a general understanding of the farmer's agribusiness operations and be accurate while presenting the situation to the bank's management before they can lend to the farmer. Through abiding by this process, the lender reduces misunderstandings and will give more hope that the lending conditions will meet the farmer's situation.

Lastly, a strong collaboration with other stakeholders on the market is required so as to share the risks and facilitate the famers to pay and adapt to the price fluctuation on the market and to the impact of climate change.

3.3.3. Challenges

- **Challenge for the bank:**

» ***Insurance***

Agriculture insurance products are still costly; thus without subsidies from the government or other private institutions a farmer is unable to afford it. Therefore, in case prices fluctuate on the market or if the yield is lower than expected, the bank bears 100% of the risks and will be obliged to recover all the money by its own.

- **Challenges related to farmers and cooperatives:**

» ***Poor management of the cooperatives due to low literacy in accounting and management.***

Some cooperative leaders and the farmers lack skills in loan and project management. Thus, once the loan is obtained, it is mismanaged, which poses threats to the sustainability plan of the agriculture financing scheme offered by Urwego Bank.

» ***Lack of farmers' awareness on credit.***

Most of the farmers do not have enough awareness about the importance of credit to boost their farming activities. Having had low accessibility to finance from the agricultural sector in the past, some farmers still believe that getting loans is for businesses other than agriculture. In addition, the financial institutions also do not decentralize their products to the farmers. This leads to a low number of farmers actually borrowing from financial institutions such as Urwego Bank to finance their agricultural projects.

- **Challenges from stakeholders**

» Government and private sector organisations involved in decision making about agricultural make decisions that affect the agriculture financial inclusion without consulting all affected members. Some of the decisions are related to importation of seeds and fertilizers processes whereby a specific type of fertilizers to be used is decided while there is not enough of it in stores. Thus, the farmers who applied for it will not be able to receive it in due time, which may lead to the loan being misused.

» **Price fluctuation:** This affects the agricultural loan whereby lenders give out the loan according to the price on the market, which is used to approximately estimate the amount of money that will be generated from the harvest. If the original price decreases, so will the money generated from the harvest, which make it difficult for the farmer to repay the loan.

3.3.4. Future outlook

As a way forward, Urwego Bank is planning to:

- Expand the activities of supporting small farmers through financing all the farming activities such as labour, fertilizers, seeds, pest control and post-harvest activities and value addition.
- Add tea to its value chain of crops that are financed through agriculture.
- Launch an education loan to facilitate access to finance for self-payment education and payment for children's school fees. This will help parents and other individuals to pursue their education on credit that will be paid in due time in accordance with the conditions set in the registration process.
- Cooperate with insurance companies and the Ministry of Agriculture to share the risks found in Agriculture through insurance. This will be a method of de-risking the agribusiness as a whole and improve its eligibility to financial institutions. This will encourage farmers to apply for the loan to develop the agriculture sector.

3.3.5. References

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3.4. UAP INSURANCE: Insuring agriculture in Rwanda

Insurance may help mitigate the devastating effects of drought. Source: CIMMT.

UAP Insurance Rwanda is a subsidiary of UAP Old Mutual Holdings Ltd., a Pan-African financial services group. UAP started operating in Rwanda in 2011 and provides different services including insurance, investment management and property development. Currently, UAP has 12 businesses operating in Kenya, Uganda, South Sudan, Rwanda, Democratic Republic of the Congo (DRC) and Tanzania.

The focus of the UAP's business includes general insurance, health insurance, life insurance and savings. UAP Insurance offers a wide range of general insurance products that are tailor made to suit their clients' need. They include the accident and general losses cover, engineering solution, agriculture solution, property, etc.

The concept of insurance is defined as a transfer of financial risks from an individual to a pooled group of risks against a two party contract (World Finance, 2010). The policy taker (i.e. the person who subscribes for the insurance) want to be covered against an uncertain event by paying a small but certain amount so that in case of an incident he receives a pre-determined recovery, which is an increased cost of putting the structure back to its original condition.

3.4.1. UAP Agriculture Insurance Products

As part of its agriculture solutions, UAP provides a multi-peril crop insurance, which focuses on specific crops such as wheat, maize, barley, rice, tea, coffee, sugar, tobacco, horticultural crops, floriculture and tree crop. It also provides livestock insurance that covers dairy cattle, beef cattle, poultry, pigs, sheep and goats.

a. Crop Insurance

Source: UAP (2018)

Per its name, UAP's Multi-Peril Crop Insurance is a product whereby the insured can be protected from multiple risks and uncertainties in crop farming. The product insures all commercial field crops with the idea to provide security for farmers in order to have enough production for the household consumption and for the local market. It covers farm assets and equipment such as harvested crops, greenhouses, and irrigation facilities. UAP compensates the money lost by the farmers, covering from the effects of climate changes and diseases, based on a pre-agreed market value of the insured crops at harvest. Generally, UAP's Agricultural insurance covers crops loss caused by hailstorm, fire, drought, excessive rainfall, frost damage, flooding and lightning. In short, the insured is repaid when he faces a bad season and/or poor harvest.

The premiums payment is based on the value of inputs or on the pre-agreed market value of the harvested crop. The premium rate for the multi-peril crop insurance ranges between 4.5% and 10.2%, depending on the crop type, the number of insured perils and on the risks that certain crops experience on ground such as deterioration. Depending on the option chosen by the farmer: for the *input cover*, the repayment is done any time, once a farmer gets a claim; for the *output cover,* the payment is done at the end of the season. When the loss necessitates replanting, the payments are done immediately. However, UAP does not cover crop losses due to work interruptions, delays in harvesting, confiscation of produce or farming equipment, theft, or other unaccountable losses. UAP also does not cover losses due to incorrect input application procedures (i.e. pesticide application, fertilizer application, etc.).

The subscription to this product is available through subscription from individual farmers or from financial institutions on behalf of farmers. The latter approach, which is the most popular, is when a bank asks for the loan for the applicant to have insurance as an alternative form of security. The process of getting this crop insurance involves filling in a proposal form. UAP does a quotation and field inspection, specifies premium payment to be paid and lastly provides a contract. The benefits gained from using the multi-peril crop insurance include the fact that the insured farms have greater access to agriculture credit, farmers are covered against losses in the event of a bad crop season and crop insurance is a finance innovation that stimulates investments in the agriculture sector through increased access to funding and motivation of all stakeholders.

b. Livestock Insurance

Source: UAP (2018)

UAP offers Livestock insurance for dairy cattle, beef cattle, poultry, pigs, sheep, and goats. It compensates farmers through banks if they have used money from the bank for accidental deaths, fatal illnesses, emergency slaughters on advice of recognized veterinary surgeon, and livestock theft. Within the agriculture insurance, livestock insurance is a more popular product than crop insurance. This is because UAP is the insurer of the Heifer project, the official cattle supplier of the GIRINKA program, and the government requires insurance coverage for cows distributed to the population in this program.

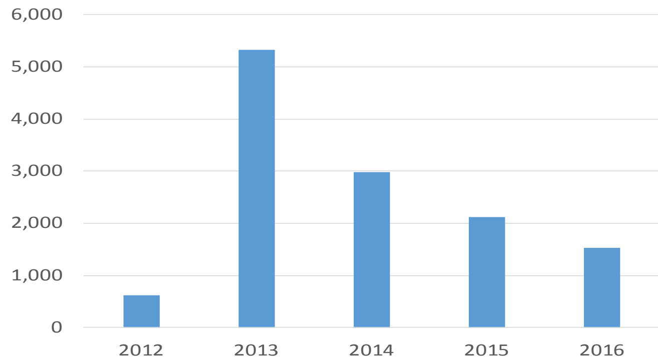
The main benefit for the farmers getting insurance of cattle is to get more investment in livestock project development, as it is easier for the farmers with insurance to get a loan from a bank. In return, once there is a livestock loss, both the farmer and the financial institution are compensated by the insurance company, which reduces the loss for both parties. However, the UAP livestock insurance covers 10% of the loss for all types of loss with the exception of the theft related loss for which it covers 20%. The application processes of the livestock insurance require a veterinary and valuation report of a registered veterinary surgeon, livestock identification by ear tags, tattoos or any other practical mode of identification for the livestock and filling in the application form as well as the payment of the premium.

The annual premium charges depend on livestock type and population to be insured. Normally, it ranges between 3% and 6% of the sum insured and the veterinary valuation serves as a basis for determining the sum insured. In the meantime, the claim of settlement requires a notification to UAP in immediate time for all other types of loss while for a theft related case, it requires a period of 6 weeks to searching for the stolen livestock before the recovery settlement.

3.4.2. Experience

UAP Old Mutual entered the agriculture market in 2013 and UAP is currently working with 15 cooperatives and 5 groups made up of approximately 300,000 farmers to provide them with greater financial security and access to agricultural financing options. In addition, UAP is collaborating with different other financial institutions like KCB Bank, RIM Microfinance, Urwego Opportunity Bank mainly on maize production. UAP believes that the agriculture insurance is not only to deliver security for the crops and livestock, but also help farmers look more credible, and professional. It also gives them collateral and all these benefits of agriculture insurance encourage more people to invest in agriculture.

Figure 14: Value of agricultural insurance policies (total sum insured in US$1,000)



Source: World Bank (2017)

Despite some challenges, UAP remains the biggest insurance company involved in agricultural finance. UAP has increased access to financial lending for farmers by increasing trust and security between banks and smallholder farmers. All this has been possible through some key factors.

Network: UAP's operations are facilitated by its network of experts across East Africa, who provides technical assistance. UAP is sure that this support network will continue to be an asset as its operations grow.

Reinsurance: Considering the risk and cost of agriculture insurance, UAP also protects itself. The company is covered by a reinsurance company. UAP pays a premium charge and in return a reinsurance company shares the risk of UAP's operations, strengthening its capacity to reimburse farmers through banks.

Government support: The government has recently increased its engagement in the agriculture sector. More and more farmers are receiving support from the government through subsidies which help them afford insurance. The government is also encouraging more farmers to work in cooperatives, which benefits both UAP and the financing institutions they work with. When cooperatives receive a loan or insurance, they harvest their crop at the same time and have the same risks, which make it easier for UAP to monitor them. The government's involvement has substantially benefited UAP because farmers are more willing to listen to the government than they are to either banks or insurance companies. However, for greater success, improved collaboration between officials from the government, banks and insurance companies that work with farmers is needed.

Farmer engagement: The success of an insurance business is also somewhat cyclical in that, as more people buy into the Crop or Livestock Insurance programs, the more effective will UAP be in providing for all its clients.[2]

14 This is linked to the law of large numbers which states that for a series of independent and identically random variables, the variance of the average amount if there is a claim payment decreases as the number of claims increases.

As such, improved farmer engagement will be a major factor for the UAP's success in the future as a risk sharing and transfer mechanism.

3.4.3. Challenges

Currently, UAP reports not to make profit in its agriculture insurance programs, an issue which it attributes to several challenges, including the following:

Resistance by farmers: Agriculture insurance is expensive, and many farmers do not understand the importance of getting insurance. Moreover, insurance companies have a bad reputation for rural farmers; they fear that the companies will cheat them and steal their money. In the past, farmers have had issues with insurance companies which pulled out before reimbursing them.

Lack of awareness: Farmers often lack awareness about UAP and, given the cost of insurance, are unwilling to spend money on a product they are unsure about. Therefore, UAP spends a lot of time training and mobilizing farmers.

Costly technical knowledge: The ground works and assessments that UAP conducts require a lot of technical knowledge and mobilizing skilled staff can be costly.

The risk of the sector: There is also the general problem of working with banks in such a risky sector. For instance, in the 2015-2016 season, many farmers experienced a bad yield season and those who did not have insurance were unable to pay back their loans. As a result, banks have become more hesitant in their agricultural lending, which has led to an overall decrease in agricultural loans.

3.4.4. UAP's Future Outlook

Looking towards the future, UAP expects growth. Although it is currently reporting to operate at a loss, its position in Rwanda is secure and it hopes to build trust, raise awareness, and increase profits. Some of this confidence comes from the fact that the government, through MINAGRI and Access to Finance (AFR), will continue to give out subsidies to farmers for livestock and crops. These subsidies will facilitate the financial lending process. UAP also hopes to expand their services to output covers in addition to their input covers (Crop-yield insurance-input covers protects the expected revenue due to unexpected yields, which is the volume of a crop's harvest. Crop-revenue insurance-output cover covers expected revenue from loss owing to market fluctuations of crop selling prices). Currently, they do not work with post-harvest handling because this service is still too expensive for many farmers and farmers have not yet expressed interest.

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