Constraints against farmers access to formal loans in Rwanda

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Content

Executive summary

In Rwanda, 86% of Rwandese mostly rely on agriculture which is their main source of income and employment. Agriculture contribution to the Gross Domestic Product (GDP) is around 27%[1]. Since some years ago, the Government of Rwanda has committed that traditional farming must be modernized and become an activity that produces for the market and that supports other economic sectors. Despite that importance of the agriculture, less that 6% of formal loans provided in Rwanda are granted to that sector.

To sensitize producers about credits products and to encourage financial institutions for more credit awarding, the Gouvernment of Rwanda has provide its contribution through Bank of Rwanda for Development (BRD) and Business Development Fund (BDF). As for the private sector, the number of formal banking financial institutions has increase with a clear domination of banks.

Nevertheless, the supply of those financial institutions is not matching with the smallholder farmers' demand. Various constraints are preventing farmers from access to formal loans. Hereafter, the main constraints are cited among others:

- ✓ Too many small producers who are dispersed on great distance;
- ✓ The agriculture sector is subject to multiple and almost certain risks;
- ✓ Poor agricultural productivity;
- ✓ The majority of farmers do not make insured their businesses;
- ✓ Poor capacity of farmers;
- ✓ Lack of collaterals;
- ✓ Lack of information on the existing credit products;
- ✓ Mismatch between the supply and the demand;
- ✓ The high cost of credit application;
- ✓ Physical distance from banking institutions;
- ✓ High credit rates;
- ✓ Lack of knowledge in business plan design;
- ✓ Poor financial literacy and poor knowledge in project management for farmer cooperaives;
- ✓ Credit products are available for few value chains;
- ✓ Poor information on agriculture reality for banking institutions.

Thus, farmers recommend the follow for more access to formal loans:

- ✓ Review credit access mechanisms;
- ✓ Reduce credit application requirements
- ✓ Risk management improvement;
- ✓ Reduce the credit cost;
- ✓ Capacity building for farmers and for their cooperatives;
- ✓ Capacity building for banking institutions.

[1] IPAR-RWANDA/AFR,2018: Rwanda Agriculture Finance year book,p.10

1. INTRODUCTION

1.1. Presentation of INGABO Syndicate

Ingabo Syndicate is a farmer organization with legal personality since 1rst April 2005.

It was created by farmers from Southern Province. Nowadays, INGABO Syndicate has more fifteen thousands (15000) located mainly in the districts of KAMONYI, Muhanga, Nyanza and Ruhango which constitute its operation zone.

The mission of INGABO Syndicate is to build farmers technical and economic capacity of its members so that they become competitive actors on the market.

INGABO Syndicate is organized around three governance organs:

- ✓ At province level: a General Congress, a Board of Directors and an Executive Secretariat in charge of daily businesses of the Syndicate;
- ✓ At the zone level: a congress of the zone and a bureau of the zone;
- ✓ At the cell or the Gacaca level which the base structure: A Gacaca congress, a Board of directors.

There is also an audit committee and a conflict resolution at all levels.

1.2. Objective and rational

This report present the situation of the farmers access to formal loans in Rwanda.

Agriculture provides an important contribution to the Rwanda economic development.

86% of adult Rwandans survive on agriculture which provides them income and jobs. Its contribution to the Gross Domestic Product of Rwanda is around 27%[2]. Since some years, the Government of Rwanda has commited itself for transformation of the traditional agriculture in a modernize sector which produce for the market and which participate in the development of other sectors of the national economy.

But to produce for the market, farmers need finance services (almost credit) so they acquire capacity to by new technology and other necessary items for their investment enhancing.

[2] IPAR-RWANDA/AFR,2018: Rwanda Agriculture Finance year book,p.10

The finance sector has constantly increased in categories and in number. Financial institutions encompass commercial banks, microfinance institutions, saving and credit cooperatives, insurance companies and pension institutions.

In spite of this development, the total credit granted to the agriculture sector remains insufficient. The agriculture whose contribution to the gross domestic product is around 30% is provided with 5.2% of the GDP for its development. The agriculture sector has been provided of 2% of the toal amount of the formal credit awarded by financial institutions the Rwandan economy in 2019[3].

As a farmer organization, INGABO Syndicate has decided to collecte necessary data to well understand the underlying causes of poor access to formal credit for farmers (overall for smallholders) and to plan advocacy actions for filling of the the gap. Theuss, this data collection aims at establishment of a list of challenges that prevent farmers fully access to formal loans.

1.3. Methodology

This data collection has been realized using mainly the desk review and farmers groups discussions.

Firstly, different documents written by various specialists of agriculture finance have been gathered. Those documents are the following among others:

- ✓ Reports of Ministries and government projects;
- ✓ Researchers papers;
- ✓ Reports from public and private organs involved in activities related to agriculture finance;
- ✓ Government policies and programs
- ✓ Newspapers
- ✓ Etc.

After their gathering, documents have been analysed and the most relevant were selected for analysis.
Then, agriculture finance has been discussed in farmer groups. Those discussions allowed farmers to exchange their points of vue on the specialists' findings.

This report is organised around five chapiters: introduction, existing agriculture credit mechanisms, relationship between agriculture credit supply and demand, challenges to farmer access to formal loans and farmers recommandations.

[3] MINAGRI(October 2019): Leveraging Private Sector Strategy, October 2019),p.8

2. EXISTING FORMAL MECHANISMS FOR AGRICULTURE CREDIT

2.1. The nature of the agriculture finance issue in Rwanda

The financial inclusion has an important role to plan for development speed up and for poverty alleviation. It is the reason why the Government of Rwanda is committed to support the financial inclusion through implementation of the National Financial Inclusion Strategy (NFIS2019-2024). This strategy has been established in order to promote easy access of all categories of the population (including farmers) to finance services.

Financial inclusion facilitates people assessts management and protection and helps for investment improvement and national economy strengthening. The national financial inclusion strategy indicates the respective roles that all stakeholders must plan to easy finance access for every Rwandan.

Agriculture finance development issues are dealt with also in the Rwanda Financial Sector Development plan II (2013-2018). The strategy mentioned objectives including UMURENGE SACCO and other microfinance institutions strengthening, client protection, promotion of new payment systems, matching colleratel register and land register, promotion of information transfer through mobile phones and sensitize people to acceptation of collaterals other than land or houses.

Nevertheless, the farmers' access to formal loans remains insufficient. This constitutes for them a serious handicap when they try to increase and modernise their investment and to improve their produce income. So they continue wallowing in poverty.

There are two types of finance services mechanisms: formal mechanisms and informal mechanisms. In Rwanda, the two mechanisms operate together as the formal mechanisms failed to supplant informal mechanisms which remain more popular.

Researchers reveled that among borrowers, 4% only borrow from banks, 13% borrow from other formal financial institutions. The findings reveal also that 61% of Rwandans borrow from informal mechanisms when 32% get their loans from their relatives and their freinds[4].

Despite existence of mechanisms set to facilitate farmers's access to loans, few of them are served. The 2018/2019 annual report of the Ministry of Agriculture mentions that credit granted to agriculture constitutes 5.97% of all loans provided by formal mechanisms in 2019[5].

Existing financial institutions including microfinance institutions do not invest in agriculture sector enough. Private institutions provide few loans to the sector.Nevertheless, the Government of Rwanda is committed to partner with them for crop and livestock produce

[4] FinScope Rwanda survey 2016
[5] Minagri: Annual report 2018/2019,p.18.

increase and exportation[6]. Crop and livestock produce increase can impact positively on industry development and on poverty alleviation programs.

Between 2000 and 2010, crop produce has increased to 5.8% and it has reached 8% during the years which followed[7]. This growth has motivated some investment in agriculture sector. In addition, the Government of Rwanda has included agriculture among priorities due to its importance in the national economy. Various strategies and programs have been designed including the Economic Development and Poverty Reduction Strategy (EDPRS) and the Strategic Plan for Agriculture Transformation (PSTA) and many others like the Maputo declaration on agriculture and food in Africa where, in 2003, States made a "commitment to the allocation of at least of national budgetary resources to agriculture and rual development policy implementation within five years". The Government of Rwanda has invested many efforts to increase in quantity and in quality the crop produce and to improve agriculture infrastructures.

This leads someone to wonder why many farmers do not access to financial services et what can be done to reverse the trend.
The 2017 report of the Financial Stability Directorate in the National Bank of Rwanda indicate that the problem date back to many years since the percentage of the formal loans granted to agriculture sector did never exceed in current level since 2010:

Domains	Percentage of credit							
	2010	2011	2012	2013	2014	2015	2016	2017
Non categorised activities	9.2	11.9	15.0	14.1	11.5	9.3	7.8	7.9
Agri. fisheries and livestock	2.9	3.4	3.2	3.0	2.8	2.5	2.1	1.5
Mining activities	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2
Manifacturing activities	10.2	6.7	5.8	7.8	10.2	8.6	10.0	10.1
Water and energy activities	0.8	0.6	1.2	1.8	2.9	2.4	2.4	2.7
Mortigage industries	28.3	29.7	34.1	33.1	31.3	35.7	33.9	37.2
Restaurants and Hotels	33.7	34.3	29.8	28.6	30.9	29.9	31.2	26.6
Transport and wholehousing	9.6	7.9	6.5	6.3	5.8	6.4	7.2	9.0
OFI&Insurance	1.4	1.6	1.3	1.3	1.1	1.6	1.7	1.6
Service sector	4.0	3.9	3.1	3.8	3.5	3.6	3.6	3.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Isoko: BNR (2017), Financial Stability Directorate

Moreover, as it is planned, the portion of total credit will increase only at 10.4 by 2024 was 5.97% for the year 2018/2019[8].

[6] MINAGRI: Strategic Plan for the tranformation of agriculture in Rwanda., 2013
[7] World Bank Group(2018): Agriculture Finance Diagnostic-Rwanda
[8] BNR: Annual report 2018-2019;P.18

2.2. Mechanisms facilitating farmers access to formal loans

If only 6% of the credit allocated to agriculture sector, it means that farmers receive less than that percentage when taken individually. Various reports indicate that in most of cases, farmers receive short-term loans and that generally for produce collection and marketing. Whereas medium- term and long- term loans are almost inexistent.

Most of times, farmers receive credit from microfinance institutions even though credit ratio that is allocated by those institutions to agriculture sector is low. In addition, the credit rate set by those microfinance institutions is very high.

In general, analysis farmers access to finance means to demonstrate that there are formal mechanisms that facilitate them access to finance services, to show that farmers are easily served through those mechanisms and to prove that the financial mechanisms requirements correspond to farmers needs.

There are two categories of mechanisms through which farmers can be served:

Mechanisms supported by Government and its partners
✓ Private and independant mechanisms

2.2.1. Mechanisms supported by Government and its partners.

Since one decade, the Government of Rwanda deployed important efforts on agriculture sector in order to speed up its development. For example, many investments have been initiated for helping farmers in acquiring improved inputs, advisory services, livestock, markets, post-harvest insfrastructures, irrigation infrastructures and materials, etc.

The Governement has also encouraged financial institutions for providing loans through BRD and BDF programs including guarantee schemes and matching grants.

2.2.1.1. Bank of Rwanda for Development (BRD)

Short term and long term loans allocated through the Bank of Rwanda for Development, the matching grant and the guarantee schemes, constitute the main mechanism through which the Governement support the finance sector.
BRD is the only one Governement institutions that grants short-term and long-term credit in agriculture. It is also the main lender in agriculture sector[9]. In 2016, BRD granted 41% of the total loans provided in agriculture sector[10].

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[9] USAID, 2018: Rwanda banking and investment analysis. Fueling enterprise innovation, growth and job creation.

[10] IPAR-RWANDA/AFR,2018: Rwanda Agriculture Finance year book,p.22
: Rwanda banking and investment analysis. Fueling enterprise innovation, growth and job creation.

The public-sector lender, the Development Bank of Rwanda (BRD), primarily lends to Agribusinesses**,** overall for quality crop producing and marketing. To achieve this objective, the following strategies have been set:

(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, agroprocessors, etc.). Particularly for farmers, BRD provides loans for all agriculture activities from producing to harvest in addition of advisory services.

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

BRD finances projects related to risk management like pesticide purchasing, fertilizers acquisition, payment for produce insurance, etc. All this is done to transform agriculture and make it attractive for investors who are reluctant to take risk in agriculture sector.

(iii) Promoting mechanization to boost agricultural productivity.

BRD grants loans for irrigation projects, purchasing inputs locally or importing them, leasing of machinery and equipment, etc.

The following are the categories of BRD beneficiaries: crop producers and stock breeders, cooperatives and enterprises. The credit is at least equal to 15 millions Rwanda francs **15**[11]. But this kind of credit does not concern small and medium business or individual producers who need small loans.

BRD has also launched a program for refinancing of microfinance institutions like saving and credit cooperatives. This is 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 microloans and reach more beneficiaries. Moreover, it enables the bank to increase the minimum loan amount to Rwf 50 million per client.

This mechanism has been established because microfinance institutions are the main lenders in agriculture sector. With this mechanism, it will be easy for microfinance institutions to grant to farmers small loans.

For the purpose of 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.

[11] IPAR-RWANDA/AFR,2018: Rwanda Agriculture Finance year book

2.2.1.2. Business Development Fund (BDF)

The Government contribution is expressed also through the matching grant which is provided to farmers and micro and small agribusiness enterprises in order to encourage them for using new technologies, using of inputs and produce marketing.
The International Fund for Agriculture Development (IFAD) is the main funder for the matching grant. This fund is jointly managed by BRD and BDF. In 2016, 2.8 billions were distributed and allowed allocation of a total of 11 billions of loans 11[12].

The matching grant helps in supporting farmers and micro and small enterprises in agriculture sector. Once the grant is approaved, the sum is deposited on the account of the financial institution collaborating with the borrower. When the borrower pays back an installment of the loan previously agreed upon, the matching grant is used to compense the remaining installment.

BDF provides 65% of partial credit guarantees allocatd in Rwanda.
The support is granted to financial institutions which finance small and medium enterprises operating priority economic sectors. In 2016, BDF disbursed for partial credit guarantee a sum of 6.5 billions which generated 17.9 billions Rwanda francs of loans; meaning 33% of the agriculture credit profolio.

This category of support is financed by various Government programs; thus requirements for credit application depend of the source of funds.

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. Here are details on services relating to current programs:

1^0. **Agriculture Guarantee Fund (AGF)**

Services	Comments
1^0.Agriculture Guarantee Fund (AGF)	the BDF offers guarantees in a range of 30% to 75% of collateral, depending on the category of applicants and the funding source: -For companies and cooperatives, the maximum guarantee is 50%. -For individual men above 30 years, the maximum guarantee is 50% of collaterals -For youth and women, people living with disabilities, retrenched civil servants, demobilized soldiers and genocide survivors, the maximum guarantee is 75%[13].

[12] IPAR-RWANDA/AFR,2018.

[13] IPAR-Rwanda/AFR,2018: p.37

2^0. Grants

BDF provides a maximum grant of USD 40,000 on capital investment (warehouse, machine, transport), 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.
Upon approval from the BDF, the grant is deposited at a partner financial institution (PFI) when a loan is disbursed to a borrower. Once the borrower repays a predetermined portion of the loan, the grant is used to offset the balance of the loan. The level of grant coverage differs by grant programs and beneficiaries.

Services	Programs	Comments
2^0.Grants	**Rural investment facility (RIF):**	BDF covers 25% of the investment in an agricultural project along the whole value chain
	The Project for Rural Incomes through Exports (PRICE) grant	The focus is put on export crops by providing tailored and sustainable financial services to the value chains stakeholders. It finances the primary production and working capital by covering 50% of the loan.
	The Post-Harvest and Agribusiness Support Project (PASP) grant	The PASP grant targets poor farmers and members of cooperatives who own small land plots. The grants are awarded only to groups with strong business proposals. Priority crops include of potatoes, maize, beans, cassava and dairy products. Eligible projects are transformation units, machinery for processing, transportation, climate resilient equipment (water tanks, solar systems), cycle systems, capacity building, and capital investment (drying ground, Sheller).
	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	**a.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%.

	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%.
	c.The joint ventures grant: The grant is given a joint a registered venture between a cooperative and an individual.

3^0. **Quasi-Equity**

Services	Comments	Eligibility criteria:
3^0. Quasi-Equity	Objective: To encourage fresh graduates with an agricultural background to set up agribusiness projects. The program avail a grant of 30% of the loan, 60% convertible shares of BDF, and the individual has to contribute at least 10%. 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. BDF supports shareholders or investors in an agricultural company. Types of project: aquaculture projects, livestock and agriculture farming and horticulture and agro-processing projects.	• 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 ; • 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 agroprocessing.

2.2.3. Private financial institutions

In Rwanda, regulated financial institutions include 16 banks, 457 microfinance institutions, 3 pension institutions and 14 insurance companies. “The financial sector remains dominated by the Banking sector with 66.1 percent total financial system assets as at end June 2019. The pension fund ranked second with 17 percentage share followed by insurance and microfinance sectors, which accounted for 9.7 percent and 6.4 percent respectively”[14]

[14] BNR(2019): Annual financial stability reportjuly 2018 June 2019,p23

The Banking sector is composed of 11 Commercial Banks, 1 Development Bank, 1 Cooperative Bank and 3 Microfinance Banks. All these Banks are regulated under the Banking Law № 47/2017 of 23/9/2017 governing the organization of banking[15].

As for Finscope 2020(June)[16], the number of financial institutions increases the same way financial inclusion improves. In 2020, 7% (0.5 million) adults are financially excluded, meaning that about 93% (6.5 million) of Rwandan adults have or use formal or informal financial products or mechanism.

36% used banks services, whereas 75% used other financial institutions (Mobile money, microfinance institutions). 81% used both formal and formal mechanisms. About 5.6 million or 78% adults use informal mechanisms to manage their finances[17].

Despite of banks sector importance for agriculture sector, its share of agriculture credit profolio is between 1% and 2%[18]. Moreover, most of credit is granted for commercial crops like tea and coffee when few credits is granted for food security crops.

In 2017, Although 89% of adults used banks services, only 4.7% were granted credit; 92.2% of loans were granted by other institutions than banks (SACCO and lending associations). According to Finscope 2016, around 50% of farmers save their money in regulated banks but only 14% of those producing food security crops and 17% of those producing commercial crops have access to banks loans[19].

3. RELATIONSHIP BETWEEN DEMAND AND SUPPLY

The Government has designed policies, strategies and infrastructure for agriculture sector development. At their side, private operators have put in place mechanisms to help investors to get financial services they need. In spite of the Government efforts to boost improvement of investisments in agriculture, financial institutions continue considering agriculture as too risky to be financed. Agriculture projects run by farmers are not funded enough as it is for projects from other sectors of economy. Farmers do not have enough access to loans. There is still the problem of demand and suspply matching. Demand and supply matching means to match services financial institutions are currently offering and

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[15] BNR(2019): Annual financial stability reportjuly 2018 - June 2019,p24.

[16] FINSCOPE2020(June),Financial inclusion,P.25

[17] FINSCOPE2020(June),Financial inclusion,P.27

[18] MINAGRI:Leveraging private sector strategy, p.22

[19] FINSCOPE,2016: Financial Inclusion in Rwanda

farmers' needs but also to establish new credit products. It means also matching credit application requirements and farmers capacity.

3.1. Financial institutions supply for agriculture sector

The table below show mechanisms through which loans and support are provided to farmers to facilitate them access to credit.

Mechanisms	Support nature	Service	Beneficiaries
Government and his partners support (Government budgetary resources, funds from agriculture development projects and programs)	- Counterpart funds of the Government in agriculture development projects and programs -Government partners contribution to support farmers, private operators, organizations and cooperatives - The funds are also used to grant loans to farmers or to guarantee agriculture loans in financial institutions.	-Short- term credit - Specific loans ; - Grants through agriculture development funds ; -Grant for Inputs purchasing ; -Non financial support (trainings, technical advisory, exhibition,…) -Grants and short-term credits -	-Financial institutions -Projects and programs - Farmers - small and medium-sized entreprises -Farmer cooperatives -Financial institutions for credit or credit guaranting -Advisory services
Independant institutions (banks, microfinance institutions, etc.)	Investors assets to support farmers, their cooperatives , operators in agriculture related activities, financial institutions	- Short-term loans - Matching grants ; - Non-financial support (financial literacy, project elaboration…)	-Farmers and their cooperatives -Small and medium-sized entreprises -Various companies

Financial institutions are offering their products and various conditions to be fulfilled by borrowers including the following:

- ✓ Well elaborated application file to prove borrower capacity and integrity;
- ✓ Well presented project with feasibility and profitability analysis ;
- ✓ Borrower capacity: Knowledge, skills, experience;
- ✓ Utility of the credit for the development of the activity sector in which the borrower is operating;
- ✓ Profitability for the lender institution;

- ✓ Enough collateral ;
- ✓ Being insured for the borrower.

3.2. Farmer demand (needs)

Farmers expressed their financial needs as followed:

Needed support	Allocation
Grants or short-term credit	- Agriculture inputs purchasing - Staff salaries - Rent paiement for land and equipment - Produce transportation, warehousing and marketing - Livestock purchasing - Cattle feed - Payment of taxes -Etc.
Grants, medium-term and long-term credit	- Purchasing or renting of machins - Purchasing of transportation materials - Building or settling of warehouses - Acquiring of irrigation mechanisms - Purchasing of land for agriculture - Constructing of livestock shed - Etc.
Grants or short-term credit for social needs	health, education, housing, family and community events, domestic materials, etc.
Non-financial support	Trainings, technical advise, etc.

For farmers, the following prerequisites, among others, must be fulfilled to allow them full access to formal loans:

- ✓ Financial institutions must be close to farmers working environment to allow them to minimize transport and communication cost;
- ✓ The credit cost must be affordable to allow farmers run profitable projects ;
- ✓ The credit must be granted on time and repayment periods must flexible in accordance with agricultural cycle;
- ✓ Granting credit must be accompanied by advisory services on financial literacy and project monitoring
- ✓ Granting credit must be accompanied by follow up activities from lender agencies as it has been noted that some credits are not paid due to the follow up failure;
- ✓ Agriculture credit profolio must be extended to more crops than it is today.

4. CONSTRAINTS THAT PREVENT FARMERS ACCESS TO FORMAL LOANS

Constraints that prevent farmers' adequate access to formal loans are various and some of them are linked both to farmers and to financial institutions. The following are some of them:

1^0. **Farmers are in great number, with dispersed small plots**: in this situation increase the credit management cost for financial institutions in case farmers apply as individuals. Even if some farmers are gathered in cooperatives, those cooperativs are not professionally managed in order to increase their assets and to be able to fill out adequately different required documents which constitute the credit application files. Somo of those documents are financial audit report, annual cash flow report, well presented business plan,…

2^0. Agriculture sector is subject to multiple risks: Risks are multiple and at high level in at crop production phase. Because of that, it is hasardeous for a farmer to plan in advance the quantity of produce he will have after harvest.

The fact that agriculture is too dependant of rain falls make it unable to resist to the climate change effects. So, farmers are reluctant to apply for loans as they are not sure of their income. At their side, financial institutions are fearful to fund quasi-unprofitable businesses.

In addition to climate change- related risks, those related to produce market are also high. The prices on the market for crop produce and for livestock changes constantly so that farmer cash flow is unprectable.

3^0. Poor productivity for agriculture: In general**,** farmers realize poor produce and they do not have infrastructures for post-harvest handling of the produce to avoide post-harvest losses. Those losses increase produce related risks.

4^0. Most of farmers do not ensure their activities:

For most of financial institutions, insurance is a prerequisite for borrowers to make sure that the money lended will be paid back. But, the majority of farmers do not ensure their assets even if they are aware of insurance importance. For example, in 2019, only 4% farmers were ensured again 1% at the end of June 2020[20].

5^0. Poor farmers' economic capacity: According to credit policy, the borrower is required to bring a percentage of the money borrowed as its own contribution. Due to their low income, few farmers are able to mobilize this required contribution. BRD has decreased the rate of this borrower countpart to 30% of the total value of the investment but still, most of farmers can not afford it.

This problem is more difficult for starters in agribusiness as banks fund only projects which are already running.

[20] FINSCOPE:Financial Inclusion, 2020;P.44

6⁰. High collateral requirements imposed by the regulator: Most of time, small farmers do not have valuable assets they can give as collaterals that can attract financial institutions.

The National Bank of Rwanda which regulates the finance sector has established that the collateral value must be at least 150% of the loan applied for. Some banks require more that.

7⁰. Lack of information on existing credit products: A great number of farmers are not informed on credit products set by financial institutions.

8⁰. Financial institutions supply is not matching with farmers needs:

- ✓ Most of time, banks provide short-term loans. Nevertheless, farmers need some times long-term credit for land and equipment purchasing, etc. Moreover, when farmers repayment capacity depends on their produce, banks do not consider that some crops exceed a year period before their first harvest; this is the case for cassava, fruits, banana, etc. Weekly or monthly loans repayments do not fit farmers' cash flows situation.
- ✓ The time on which farmers need borrowed money does not match the moment the credit is granted. Most of times, borrowed money is given to farmers at a period between one to three months after the moment they need it. However, farmers apply for a credit for inputs purchasing.

9⁰.The credit application cost exceed the capacity of the majority of small farmers: When applying for a loan, the borrower must have a collateral whose value is equivalent to 150% of the loan value. In addition of that, he must comply other requirement including high interest rates (16-18% on average but up to 24% for agriculture), compulsory deposits of up to 30% (with no interest paid), the borrower contribution(not less than 30% of the total investment), additional insurance on pledged assets (up to 5%), an certified audit report and a host of fees including one-time management fees (about 0.5-1 percent), one-time file handling fees (0.5-1 percent), late payment fees (2-4 percent per day) and early repayment fees (5-8 percent on the balance paid)[21].

10⁰. Long distance between banks offices and farmers: There is a long distance between banks offices and farmers working areas. To avoid transport costs, farmers prefer to resort to microfinance institutions which are located nearer than banks and which are informed about farmers' situation and consider their needs.

11⁰. Interst rates are high for agriculture: Farmers pay up to 24% of interest when other operators pay between 16 and 18% in average.

12⁰. Lack of skills in business plan elaboration: The credit application file includes a business plan well elaborated. Farmers are obliged to hire experts for business plan

[21] Colleen Green and Robin Young: Rwanda banking and investment analysis.Fueling enterprise innovation, growth and job creation,USAID Nguriza Nshore: 2018,p.18.

elaboration as they lack skills in the domain. This increases the credit costs and prevents many farmers from applying for loans.

13^0. Poor skills in financial literacy and project management:

Most of time, farmers misuse borrowed money. This misuse leads to projects failure. Because of lack of skills, farmers are unable to identifiy their failure causes even when money has been utilized to meet other needs that those for what the credit has been granted. The same problem is rosen for some cooperatives. At the end, farmers blame their lenders and become hateful towards credit.

14^0. Credit is not granted all crop value chains: Financial institutions are willing to fund commercial crops or those used in food processing industry. Sometimes, this is meaningful value chains are well organized for those crops. But according to their importance for the national economy and in the Rwandan livelihood, farmers who produce crops for food security need also enough funds to improve their produce in quantity and in quality.

15^0. **Lack of knowledge on agriculture for financial institutions**: Financial institutions staff do not have knowledge on agriculture functioning nor on farmers living conditions. The reason why they unable to analysis adequately farmers credit application files and decisions made on agriculture projects are not well informed.

5. CONCLUSION AND RECOMMENDATIONS

Despite the contribution of agriculture to the national economic development and to the livelihood of the majority of the population, farmers do not have enough access to formal loans. The financial sector is always developing but its credit products are still mismatching with farmers needs. This results from the following main challenges:

- ✓ Legal challenges;
- ✓ Technical challenges ;
- ✓ Climatic challenges ;
- ✓ Market -related Challenges;
- ✓ Financial challenges.

With due consideration of the crucial role of fiancial institutions to the country economic development, farmers propose following recommendations to improve their access to formal loans:

Recommendations	Comments
Review the credit system	- Inform clearly farmers about existing credit products and on the process to access them ; - Reduce the distance between financial institutions and the farmers workplace ; -Match credit products with agriculture cycle; - Reduce the credit application file assessment and avail money at the right moment
Reduce requirements related to	- Reduce the minimum threshold of the collateral value;

the collateral	-Remove compulsory deposits among requirements as it is considered as a second collateral ; - Diversify the nature of collateral (various assets); -Support through collateral guarantee
Improve the risk management mechanisms	-Put in place and understand mechanisms to deal with inclement weather -Reduce insurance cost -Impose compulsory insurance for agriculture sector loans
Reduce the cost associated to the credit application	- Reduce the credit interest rate; - Put in place funds for collateral guarantee, etc
Build farmers and their cooperatives capacity	-Improve farmers knowledge and skills on cooperative principles and functioning; -Conduct trainings on management of agriculture projects -Training and coaching on business plan elaboration for individuals, farmers cooperatives and small and medium-sized agribusiness entreprises
Improve financial institutions knowledge on agriculture sector	-Training of staff of financial institutions on agriculture sector context and on farmer way of life; -Encourage financial institutions to be closer to farmers workplace.

Implementation of those recommendations requires involvement of various stakeholders including public institutions, Gouvernment partners, farmer organizations and cooperatives and their partners.

ANNEX

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