WORLD BANK AGRICULTURAL FINANCE FORUM (AGRIFIN) 2015

Lending to Agribusiness: Financing Agricultural Value Chains

Istanbul, Turkey: May 11th -15th, 2015
SCALING UP AGRICULTURAL FINANCE

Can Small Scale farmers be financed on commercial basis by a Financial Institution?

The Case of KCB BANK RWANDA LTD
1. Rwanda’s agricultural scene
2. Agricultural lending
3. Value chains as a business approach to finance
4. Addressing farmer issues
5. Success stories
Rwanda’s Agriculture Sector Highlights

- About 79% of land classified as Agricultural
- More than 80% population engaged in Agriculture
- Agriculture accounts for a third of Rwanda’s GDP
- The sector meets 90% of the national food needs
- Sector generates more than 50% of the country’s export revenues
- National average holding of 0.76ha: Small holder farms
Sector Highlights: The future

- Agriculture is expected to grow from 5.8% to 8.5% p.a by 2018.

- People living under primarily agriculture sector expected to reduce from 34% to 25% with focus on agro processing

- Agricultural exports expected to increase in average from 19.2% to 28% p.a and imports to be maintained at 17% average growth
### Sector Highlights: Government Initiatives

**Agricultural Policy:** Strategic Plan for Agricultural Transformation


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Some factors favoring agricultural lending in Rwanda

- **Government initiatives:**
  - Policy and Strategy on Agricultural Finance
  - Agricultural Guarantee Funds
  - Post Harvest Infrastructures
  - Irrigation and Mechanization Initiatives

- **New markets to explore**
  - Large % of population in Agriculture Sector
Some factors favoring agricultural lending in Rwanda (contd.)

- Private ownership of land
- Large % of Agricultural Land to total land
- Two seasons (A & B) per year for food crops and season C on irrigated land
### Some factors affecting agricultural lending in Rwanda

- Smallholder farmers implying low scale of production
- Weather related risks
- Quality constraints
- High transaction costs
- Lack of strong collateral for smallholder farmers
- Lack of succession plans
- Side selling culture
- Lack of storage facilities
- Lack of Technology for small scale farmers (Irrigation system)
- Price fluctuations
- Lack of records (Management issues): lack of financial information, no credit history
KCB Business Model: Agricultural value chain financing

- Partnering with different actors within the value chain:
  - Agricultural inputs suppliers,
  - Agricultural Insurance Providers,
  - Technical Support Providers (technical assistance, quality assessment),
  - processors and buyers among others
KCB Business Model: Agricultural value chain financing (cont’d)

- Promoting Innovation in Agricultural Finance: Agricultural Insurance Cover, Inventory Credit Facility among others

- Reducing Turn Around Time (TAT) to 24 hours decision.

- Applying Banking Standards: KYC, Credit files, reporting to Credit Reference Bureau (CRB), among others
KCB Business Model: Agricultural value chain financing (cont’d)

- Putting in place an Agribusiness Unit and recruiting staff with Agribusiness expertise

- Training of all staff involved in lending on Agricultural Lending model
Agricultural Lending to small farmers – KCB

Business Model workflow

1. Agriculture financial need assessment
2. Risk assessment and mitigation measures
3. Partnership formation
4. Product development

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The key is to identify the supply chains & integration with a large number of producers

- **Agricultural inputs suppliers**: work with companies which supply seeds, fertilizers, pesticides to farmers: the loan for purchasing these inputs are directly paid to the suppliers.

- **Identifying farmers under cooperatives**: based on the level of management, crops, season, infrastructures available, experience.
The key is to identify the supply chains & integration with a large number of producers

- **Identifying services providers:** Insurance companies, technical support provider, quality assessor, among others

- **Identifying the buyers of the produce:** Specialized buyers at local level (Government, Private Processors, WFP, among others)
Solving the small scale farmer’s issues

SOLUTION

- **Asymmetric information**
  - Using database of suppliers, buyers, government and past performance to assess cash flows

- **Risk/Low scale**
  - Processor/buyer acts as off-taker (Assured Market)

- **Loan deviation**
  - Direct payment to supplier; Disbursement in tranches based on activities calendar; regular monitoring done by service provider (CHAI, RDO)

- **Lack of knowhow and quality issue**
  - Technical assistance on seasonal basis; post harvest and handling support and quality assessment from service provider
Solving farmers’ issues (contd.)

SOLUTION

Lack of strong collateral
Future cash flows act as collateral; joint surety of the group; risk sharing facilities from different partners; comfort from service provider; assured market

High transaction costs
Outsource of logistics: documentation, field supervision, developed strong IT platform: Mobile banking

Risk associated: Weather related
Agricultural insurance cover from insurance company; irrigation system in place where possible

Delays in providing loans to farmers
Staff who understand the agricultural sector operations; Relationship management in place; Target of TAT: 2 Days
KCB Bank Rwanda success stories

- **28,263 smallholder farmers** have received loans from KCB under the model in Maize, beans, rice, soybeans, Irish potatoes value chains.

- **10 partnerships** in place: IFC, AFR, IFDC, RDO, BDF, RWARRI, SPARK RWANDA, CHAI, MINAGRI, UAP Insurance.

- **5 Loans products designed**: agricultural inputs financing, Inventory credit facility, Contract finance, Invoice discounting and investment loan facility
KCB Bank Rwanda success stories

- KCBR is the first commercial bank to introduce **Inventory credit facility** on Rwandan market.

- KCB is the first commercial bank to introduce **agricultural insurance** on the Rwandan market.
The Model creates value to all stakeholders

- KCBR smallholder farmers loans increased from Rwf 200 Million to **Rwf 1.5 Billion** per season in 2014 (1 USD / 700 Rwf).

- The side selling has reduced and farmers are now supplying harvest to cooperatives.

- Cooperatives started building their own storage facilities due to the increase of sales and profit.
The Model creates value to all stakeholders (contd.)

- Farmers are assured of access to markets: MINAGRI, WFP, local specialized buyers

- Farmers start doing agriculture as business on commercial basis

- Farmers gained more knowledge from service providers: Quality of harvest improved, post harvest losses reduced

- The financial records are available to the users

- Farmers are now insured
YES! SMALL SCALE FARMERS CAN BE FINANCED ON COMMERCIAL BASIS BY A FINANCIAL INSTITUTION?

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THANK YOU