Banque Populaire du Rwanda (BPR)

PROJECT RESULTS AND LESSONS

agrifin@worldbank.org

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Project Overview

The objective of the BPR project was to support establishment of an Agribusiness Finance department at the head office and strengthen the agribusiness finance and rural microfinance portfolio of BPR. This was primarily to be done through lending programs for outgrowers, channeled through producer cooperatives, while encouraging direct lending to farmers with larger financing needs.

The project reinforced BPR's wider agribusiness strategy by: supporting capacity building; assisting in development of new products; expansion of the distribution channels to farmers and rural populations; supporting the strengthening of the rural microfinance portfolio; designing and introducing a credit risk scoring model for rural microfinance; and the updating and implementation of appropriate credit policies and procedures for the agriculture portfolio.

The results and lessons emerging from the project have the potential to benefit BPR, as well as inform other banks and institutions aiming to expand their agricultural lending activities both in Rwanda and further afield.

Results

The establishment of an Agribusiness Finance Department (AFD) which provides expertise in agricultural finance across the branch network. The agribusiness department included a specialized agricultural commercial officer in each of BPR's 18 full-service branches. The creation of the finance department significantly enhanced knowledge of agriculture and lending to agriculture across BPR, with the agricultural officers both lending directly to agricultural clients and also acting as expert points of contact for staff across the BPR network who deal with agriculture. In addition, the AFD directed and led the implementation of all the other activities contained in the AgriFin project. This included adopting a value-chain approach to lending to the agricultural sector and the development of agricultural sector studies to create an expert knowledge base to facilitate lending to key agricultural sectors.

Expansion of new delivery channels to farmers and clients living in rural areas. BPR established 41 new ATMs in rural areas resulting in a large increase in ATM cards held and used by farmers and rural clients. A more detailed discussion of BPRs delivery channels is provided later in the Lessons Learnt section.

In-depth technical training provided to both BPR staff and key personnel of BPR's agricultural clients to improve the provision of lending (bank staff) and the ability to borrow (bank clients). Training covered a wide range of issues related to agricultural finance. BPR staff were trained on the overall agricultural credit process, legal/contract issues, sales, after-sales follow-up and term sheets, appraisal and portfolio management, broad sector knowledge and financial products, sub-sectors (as per the studies undertaken) and products, processes and monitoring. Over 120 bank clients/customers from tea, coffee, rice and maize cooperatives were trained on financial management and cooperative governance for tea, coffee, rice and maize; improving their ability to borrow from the bank.

Agricultural sector studies were developed to create an agricultural knowledge base to accompany new lending terms and improved decision-making for agricultural loans. In all, 13 commodity sub-sectors (coffee, tea, maize, rice, cassava, beans, tomatoes, bananas, pyrethrum, Irish potatoes, passion fruit, pineapples and dairy) had terms of lending prepared and adopted and are now forming the foundation for lending decisions to be made.

Four products were developed: one for small borrowers and three for cooperatives (input, asset and collection finance).

- **Sarura "Save for Loan" for micro borrowers—**a micro loan to small farmers for the purchase of agricultural inputs. The loan uses savings as collateral—lending three times the savings amount as a loan. The loan is still in the pilot phase, which began in 2013. By the end of Q3 2013 58 loans were outstanding with an average loan size on US$760 and a PAR90 of zero.

- **Input finance for cooperatives—**this was designed to provide working capital for cooperatives to purchase seasonal inputs and hire labor. Loans have a maximum tenor of 9 months and are repayable after harvest.

- **Collection finance for cooperatives—**this was designed to provide finance to cooperatives purchasing commodities from their members post-harvest. The loan was secured by an agreement with a specific contracted (and verified) off-taker. Loan disbursal is based on collection volumes with repayment after sales receipts are received with the loans secured by off-taker agreements/contracts. To date no loans have been set up, and this product is still a "work in progress".

- **Asset finance for cooperatives—**this was designed for the purchase of land, agricultural equipment, vehicles and construction of storage facilities etc., secured by physical collateral. In this case, the finance amount is a percentage of value of the assets and the tenor of the loan is based on the economic lifetime of the asset.

Lessons Learned

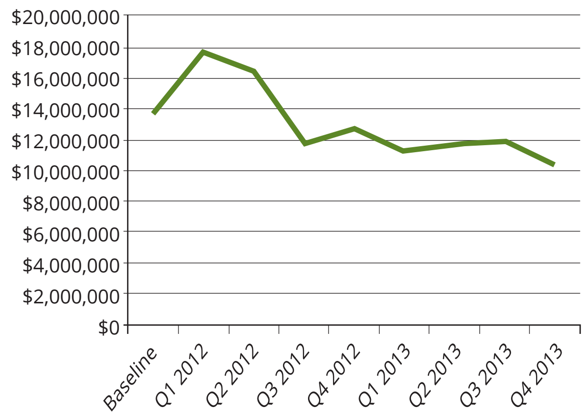
Hiring one specialized technical assistance firm for the duration of the project provides significant benefits. RIAS provided high quality consultants, experienced in agricultural finance in the African context, who were able to assist the bank in implementing the project activities. Being on-hand throughout the project period provided continual support for bank management.

There is a demand for mobile, online delivery channels and technologies. This is particularly pertinent given the rural location of many of the clients involved in agricultural activities. There was a 154% growth in the number of rural ATM cards disbursed to rural clients (49% of the total amount of ATM card distributed). Specifically, more rural clients have access to financial services from BPR than ever before. Furthermore, mobile banking accounts were successfully introduced (202,215 accounts by Q3 2013)—providing another delivery channel for engagement with existing and potential clients. Mobile banking functionalities include obtaining a mini-statement, transferring money to other BPR accounts, purchasing pre-paid electricity, topping up airtime, paying post-paid phone bills, television subscriptions, ordering check books and getting salary deposit SMS alerts.

The institutional structure of BPR was a challenge and should have been considered from the onset. At the project start, BPR was in the process of a major institutional restructuring, and as such, had yet to define and implement its new organizational design, systems and processes. In some respects, this was an ideal time to implement a new agricultural lending program, when new processes and teams could be incorporated into the newly structured bank. However, these significant changes raised competition for management's attention and presented challenges for prioritization of activities that delayed progress on agricultural lending.

Monitoring agricultural lending is challenging without good quality Management Information at the outset. The Management Information System (MIS) at BPR was not functional/unified at the start of the project and has yet to be fully integrated across the business. This created a major challenge for the agricultural project team, who were unable to monitor their agricultural loans using the core banking system. This has also raised challenges

FIGURE 1. BPR Ag Loan and Advances



in reporting to the AgriFin program on their agricultural lending performance.

Exogenous factors may have a negative effect on outcomes. Unfortunately, the project period coincided with several factors outside of the control of the project or BPR. Policy decisions were taken by the Central Bank of Rwanda, which led to a credit squeeze in Q3 2012-Q1 2013, resulting in a significant contraction of new lending across the bank (including agricultural loans). In addition, significant coffee price volatility led to major problems for the Rwandan coffee cooperatives, which were large agribusiness customers of the bank, and their ability to repay their loans.