



Lessons in Building a Food and Agriculture Lending Business Line By Arnold Tijdens¹

From Cooperative Network to Commercial Bank

With 191 offices, 1,600 staff, 100,000 borrowers, and 1.3 million depositors, Banque Populaire du Rwanda S.A. (BPR) is the largest commercial bank in Rwanda. BPR has the characteristics of both a microfinance institution and a commercial bank, although a large part of its lending portfolio can be considered microfinance. Customers include salaried workers as well as micro and small enterprises. Recently, BPR added a strong commercial focus on the food and agricultural sector. This new focus reflects significant market opportunities and presents some challenges at the same time.

BPR traces its heritage back to 1975, when residents of Nkamba, a village in eastern Rwanda, decided to set up their own savings and credit organization. Several other community-based savings and credit schemes were later set up in other parts of the country. In 1986, as these autonomous savings and credit organizations grew bigger and stronger, an apex was established in Kigali under the name, Union des Banques Populaires du Rwanda (UBPR).

Although UBPR was transformed into a commercial bank (BPR) in 2008, it has remained true to its cooperative roots. Sixty five percent of its shares were placed in the hands of 574,624 former cooperative members. The remaining shares were acquired by the Dutch cooperative Rabobank Group. As part of its acquisition, Rabobank pledged to provide continuous management support and technical assistance. The new management team is focused on consolidating the network of autonomous cooperatives into branches, sub-branches, and outlets based on the business opportunities in each location, and laying in the necessary ICT infrastructure to bring the bank's operations fully online.

Partnering with the World Bank's AgriFin Program

BPR aims to be the leading provider of financial services to Rwanda's agriculture sector. It has penetrated deeply into rural areas, and a good portion of BPR's lending is already targeted to agriculture. In spite of its substantial agricultural lending volumes, BPR did not have the kind of knowledge of the crop/commodity supply chains that was necessary to develop appropriate financial products. BPR's products needed to be redesigned and expanded to fit the financing needs of agricultural enterprises and farming households that were active within specific crop and commodity chains. For example, the tenor of loans for agricultural inputs must be matched to the growing season--plus allowing for a reasonable time to market the produce. Hence repayment of both interest and principal should take place after the sale of the farmer's produce.

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In late 2009, the Agriculture Finance Support Facility (AgriFin) and BPR established a \$2.1 million project to build BPR's agriculture finance capacity. With \$950,000 of co-financing from AgriFin, BPR began its expansion into the food and agricultural lending business. AgriFin is assisting BPR to develop a training manual, create new products, enhance MIS capacity, and build new rural branches.

BPR had over \$267 million in Total Assets as of December 31, 2011, of which the loan portfolio comprised \$162 million.

Agricultural lending totaled \$12.5 million, representing only about 7.7% of all loans. While the overall loan portfolio grew by 25% throughout 2011, the agricultural credit portfolio grew by nearly 37%, as BPR's efforts to build its agricultural lending unit started to bear fruit.

Over the next 4 years, BPR plans to grow the agricultural loan portfolio to \$25 million.

Building the Food and Agriculture Business Line

BPR's approach to building its Food and Agriculture business line is similar to Rabobank's approach in that the decision to focus on the agriculture sector came from the very top levels of management. BPR also tried to embed knowledge of the agricultural sector throughout the whole organization, from bottom to top, from field staff to risk managers at headquarters. For instance, BPR developed an intranet website which is accessible to its entire staff and provides product and market information about each crop/commodity sector. It has also established an Agricultural Knowledge Centre to keep track of the latest developments throughout the sector and to update cost and price calculations.

One of the most important activities in developing BPR's Food and Agricultural business line was to carry out a series of highly detailed crop "sector documents", which provide in-depth value chain analysis. These studies were carried out at BPR's Agricultural Knowledge Centre with the help of international experts from Rabo International Advisory Services (RIAS). The studies were intended to map out the most important crop/commodity value chains in Rwanda, including maize, coffee, tea, sugar cane, cassava, beans, Irish potatoes, dairy, and a variety of horticultural crops. They measure the size of the market, outline production requirements and characteristics, identify major market participants, provide risk assessment of different value chain actors, and offer product and lending guidelines specific to those crops/commodities ([Please see the Irish Potato Sector Policy example here](#)). These documents then feed into product manuals, which provide lending policies and criteria for different kinds of products, including agricultural input financing, asset financing, and "raw material collection" financing, an example of which would be warehouse receipts financing.

Challenges to Developing a Skilled and Effective Team

The Food and Agriculture Department is presently comprised of 18 Agri-Commercial Officers (ACOs) who are spread throughout the entire country, along with two Agri-Project Managers, and a Head of Agriculture. The Agri-Project Managers and the Head of Agriculture provide support to the ACOs, and also directly manage some of the larger loans.

One critical challenge has been identifying qualified agronomists to add to its agricultural lending team. In order to be a true market leader over the long term, it will be vitally important for BPR to have a strong in-house team with technical knowledge of agriculture and agribusiness. That will require both more technical training for existing staff and hiring new staff with agronomical and agribusiness experience and skills. At present, however, BPR is focused on building a more efficient business with its initial complement of staff. As the business becomes profitable, BPR will be able to afford a more highly-skilled staff that can provide high-level technical support to the Food and Agricultural team. For the next year or so, BPR will continue to rely on the external partner (RIAS) for technical and agronomical support.

Another challenge is developing BPR's capacity to adapt its Management Information Systems (MIS) to specifically monitor the agricultural lending business line. This adjustment will allow managers to calculate the profitability of agricultural loans and the overall agricultural financing operation, key for business decision making. It is important for banks to do more agricultural lending, but only if the agricultural loan portfolio meets commercial benchmarks for profitability, within reasonable risk parameters.

Despite these challenges, BPR is on the right track as it builds the capacity and efficiency of its agricultural lending team. It has seen the following improvements in its business thus far:

- Well-trained staff have a better understanding of agricultural clients
- Loans that are more effectively structured
- Enhanced marketing to new clients through use of dedicated agricultural products.

BPR's "Agri Score Card"

BPR shares many key attributes of an MFI. Its customer base is comprised of many smallholders who are interested in loans of very small amounts. Given the fairly high loan processing costs, BPR decided to standardize its loan application process using an "Agri Score Card".

An Agri Score Card consists of a list of general questions and scoring of clients' responses, with the combined total resulting in a credit rating or score. The questions were developed by a score card specialist and range across topics such as the number of children the applicant has to the crop s/he is cultivating. The questionnaire has been extensively tested by taking a sample of agri-customers who have been granted loans by BPR in the past.

Based on the credit performance of the sample group a final weighting of each of the questions has been determined. Hypothetically, if repayment performance of small rice farmers in the Southern Provence is historically better than small maize farmers in the Eastern Provence, then a rice farmer in the Southern Provence receives more points and a higher score than a maize farmer in the Eastern Provence. The score that the system produces, then, indicates the relative creditworthiness of the applicant.

Within BPR, the Agri Score Card is used in combination with a decision tree of one of its principle loan products, *Save for Loan*. Both tools are fully automated and enable BPR to process loans in a limited period of time with an acceptable risk level. BPR is still in the testing phase and plans to roll out these tools system-wide over the next few years.