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**RWANDA AGRIBUSINESS
DEVELOPMENT CENTERS**

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PREFACE

The Agricultural Analyses and Design (AAD) activity is an eight-month design activity undertaken by the Chemonics International RAISE Consortium through funded supplied by USAID/Rwanda. USAID/ Rwanda is using this study and design effort to support its Strategic Objective Number Three (SO3) *to increase the ability of rural families in targeted communities to improve household food security*. Specifically, USAID seeks to obtain information and proposed intervention strategies, approaches and activities suitable for USAID/ Rwanda's support in achieving the second Intermediate Results under SO3 (IR3.2) of *creating and enhancing internal production / marketing chains that promote broad-based economic growth*. The purpose of AAD, therefore, is to provide USAID/ Rwanda directions and information for their use in future development and eventual funding of a project that seeks to revitalize agribusiness in Rwanda and recreate links between the rural sector and private sector traders and processors. This USAID project will achieve its objective by addressing identified constraints and opportunities within the commodity chain for increasing economic growth via agricultural production and agribusiness. The principal task of AAD is to identify these constraints and opportunities.

The Agricultural Analyses and Design activity is divided into three phases. The first phase (two months) is to identify and recommend for in-depth study to USAID/ Rwanda those commodity chains and interventions that have the most potential for creating increased economic growth, internal and external trade, opportunities for employment and increased income. The second phase (four months) will consist of a number of in-depth studies. Some studies will look at crosscutting issues such as transportation, finance and human capital development. An additional study will look at the creation of Agribusiness Support Centers. The remaining studies will be in-depth analysis of interventions related to commodity chains identified in phase one and selected for study by USAID/ Rwanda. The results of these studies will provide the basis for phase three of the activity, the synthesis of the studies done in phase two and development of a technical proposal and supportive design components for USAID/ Rwanda's use in developing a request for proposal (RFP) for a project to support IR3.2.

This report is based on revision of numerous documents, discussions with personnel of Chemonics International, James E. Austin Associates and USAID, as well as meetings with numerous persons whose work is relevant to agribusiness in Rwanda. A list of these persons is presented in Annex A, documents consulted in Annex B, and a questionnaire in Annex C.

The authors, William Kedrock and Kenneth Weiss, completed the engagement in two separate, short assignments, the first completed by Mr. Weiss in early December 1999 and the second part completed by Mr. Kedrock during January 2000. Both Messrs. Kedrock and Weiss wish to thank the USAID/Kigali mission and, especially, Mr. Don Brown, COP - Agricultural Analysis and Design Project, for the assistance provided.

Any factual errors are the sole responsibility of the authors.

EXECUTIVE SUMMARY

USAID/Rwanda is undertaking a study and design effort to create an agribusiness development project that will support the Mission's Strategic Objective 3, increasing rural household incomes and food security. This report considers the role of agribusiness development centers (ADCs) in the implementation of a project.

ADCs are not new. They have existed in various forms around the world, which provides an opportunity to consider ADC "best practices" and to incorporate these in the design of a Rwanda ADC. The first part of this analysis considers some of the lessons learned (Section I, part A). This report draws on these lessons in Section II, part D, to establish a strategic operating approach for the proposed Rwanda ADC (RADC).

In addition to reviewing "best practices" the first section of the report considers the context in which a RADC would have to operate. Three broad conclusions are reached:

- **Rwandan Agriculture:** Markets are inefficient, diminished local demand keeps some producer prices too low to justify inputs, and a few ill-advised regulations constrain optimal results from traditional exports. In short, Rwandan agriculture has a ways to go to return to pre-war status.
- **Rwandan Agribusiness:** It is estimated that there are 50 existing SME agribusinesses with which to work. A somewhat small initial market.
- **Finance for Agribusiness:** Despite liquidity, finance, especially medium to long-term financing, will remain a constraint for agribusiness for the duration of the project.

A few assumptions discussed that impact on the design of RADC, e.g., project life of three years and a desire to complement, not compete with, other similar existing or planned agriculture and agribusiness projects. Keeping in mind the lessons, the context and the assumptions, the paper suggests a focus on improving market efficiencies as one way to improve returns to all economic actors even in a less than conducive policy environment. Focusing on the business in agribusiness, and less on production issues except where such is needed to improve returns, would accomplish this.

The analysis does not attempt to set specific performance targets at this time, but does suggest activities that will help to achieve the objective of increase rural household income. In addition, criteria for selecting commodities and clients are introduced, e.g., size of real market potential, export v. local market, size of business, depth of employment or outreach, concentration of production base, etc.

A lengthy list of possible services is presented. The list is paired down somewhat by grouping services under four categories: Market Analysis/Information, Financial Guidance, Technical,

Market, and Management Assistance, and Referrals. In addition, a few comments are offered on the use of various tools, such as cost sharing grants and catalyst funds, partnerships and clusters.

To be effective, it is suggested that RADC, in light of its limited life and funds, restrict its activity by selecting commodities or commodity groups to work with and not by restricting its services. That is to say, RADC should be prepared to provide whatever is necessary to realize a selected commodity's potential by intervening anywhere along the chain from producer to consumer, but, concentrate on selected commodities. Thereby, through such focus, it will more effectively manage its limited resources.

LE SOMMAIRE EXÉCUTIF

L'USAID entreprend actuellement une étude sur l'Analyse et Conception pour créer un projet développement d'Agro-Business qui aidera à l'objectif stratégique no. 3 de la mission qui est l'augmentation des revenus des ménages et veiller à la sécurité alimentaire rurale. Ce rapport envisage le rôle du développement des centres d'agro-business (ADCs) dans la réalisation du projet en même.

Ces centres ne sont pas nouveaux. Ils existaient bien auparavant sous différentes formes à travers le monde ce qui, d'ailleurs, permet de considérer les « Meilleures Pratiques » pour les incorporer dans la conception des ADC rwandais. La première de ce rapport un schéma sur ces leçons, dans la section II, partie D, établit une approche de stratégie opérationnelle pour les ADC rwandais (RADC) rwandais. En plus de la révision « Meilleures Pratiques » la première section du rapport traite contexte dans lequel RADC, utiliser. Trois majeures conclusions sont soulignées :

- Agriculture Rwandaise : Les marchés sont peu performants, la diminution de la demande locale fait que les prix de certains producteurs soient trop bas pour justifier les inputs. De même, un mauvais règlement constitue un obstacle pour les exportateurs traditionnels pour obtenir les résultats optimum. En bref, l'agriculture rwandais a ses différentes façons de rebrousser chemin vers l'état d'avant la guerre.
- L'Agro-Business : Il est estimé qu'il y a 50 (SME) petits et moyens agro-business existants avec lesquels on peut travailler. Un petit marché pour commencer.
- Financement pour l'Agro-business : A part la liquidité, le financement et surtout le financement à long terme restera un obstacle pour l'Agro-Business pour le reste du projet.

Quelques suppositions avançaient que l'impact sur la conception du RADC, par exemple, projette trois ans de survie et un désir de compléter et non de concurrencer avec d'autres projets existants ou des projets agro-business en cours. Cependant, tout en gardant en mémoire les leçons, ainsi que les hypothèses, l'étude suggère de miser plus sur l'amélioration du bon fonctionnement du marché pour pouvoir récupérer les acteurs économiques moins que la politique propice de l'environnement. Il serait donc indispensable de miser plus sur l'affaire Agro-Business que sur la question de production, sauf là où c'est nécessaire pour récupérer la rentabilité.

Les analyses faites n'essaient pas d'établir en ce moment une performance spécifique des objectifs mais de suggérer les activités qui aideront à atteindre l'objectif pour augmenter les revenus rurales. En plus, des critères pour sélectionner les commodités ainsi que les clients sont mentionnés; comme la taille du marché local, la taille des affaires, l'étendue des emplois ou des séminaires, la concentration de la production de base et j'en passe.

Une liste exhaustive des services possibles est disponible. Ces services sont groupés en quatre catégories : Marchés d'analyse/information, guide financier, technique, marché et aide à la

gestion ainsi que quelques explications sur l'utilisation des divers outils comme le partage des subventions, des catalyseurs de fonds, le partenariat ainsi que le rassemblement. Pour être plus efficace, il est à suggérer que le RADC, à part sa survie et ses fonds limités, interdise son activité en sélectionnant les commodités ou groupes de commodités à travailler avec et non l'interdiction de ses services. Ceci dit, le RADC doit être en mesure de fournir tout ce qui est nécessaire afin de réaliser un potentiel des commodités sélectionnées par l'intervention tout au long du processus c'est à dire du producteur au consommateur, mais aussi miser sur les commodités sélectionnées. Ce faisant, à travers un tel point de mire, le RADC, saura gérer ses ressources limitées.

SECTION I. AGRIBUSINESS DEVELOPMENT CENTERS AND RWANDAN CONTEXT

The USAID/Rwanda Mission, through a Task Order with the Chemonics RAISE consortium's Indefinite Quantity Contract, is undertaking a study and design effort that supports the Mission's Strategic Objective of increasing the ability of rural families to improve household food security. One approach proposed by USAID is to create one or more agribusiness (assistance) centers. This is in line with the Government of Rwanda's (GOR) goal of promoting small-scale enterprises in rural areas. Agribusiness development centers (ADCs) are flexible, service oriented operations that provide assistance to existing and fledgling agribusinesses, and in so doing, create the opportunities for markets and employment that increase rural incomes.

This report discusses the feasibility of using such centers as an implementation tool. It examines their functions and clientele and suggests ways of making them operational and explores the issues of sustainability.

Why agribusiness? Because of its potential to impact, directly and indirectly, on the rural and to improve the performance within the agriculture sector, contributing to a more stable economy and growth. Sorwtom, which produced tomato paste based on an outgrower scheme of 3,000 farmers, but which has not operated since the war, illustrates the potential. The company performed agronomic research, provided seeds and other inputs on credit, had an agronomist to help the farmers, and picked up the tomatoes in its own vehicles. It also provided employment in its factory, and foreign exchange from its exports.

A. Defining Agribusiness Development Centers

ADCs fill a void. They seek to provide the agricultural sector the information, the know-how and know-who, to capitalize on opportunities and to improve performance. An ADC combines a variety of support services in an integrated fashion. Its special niche is nurturing growth-oriented opportunities, through targeted assistance.

1. Of Expectations and Strategic Design

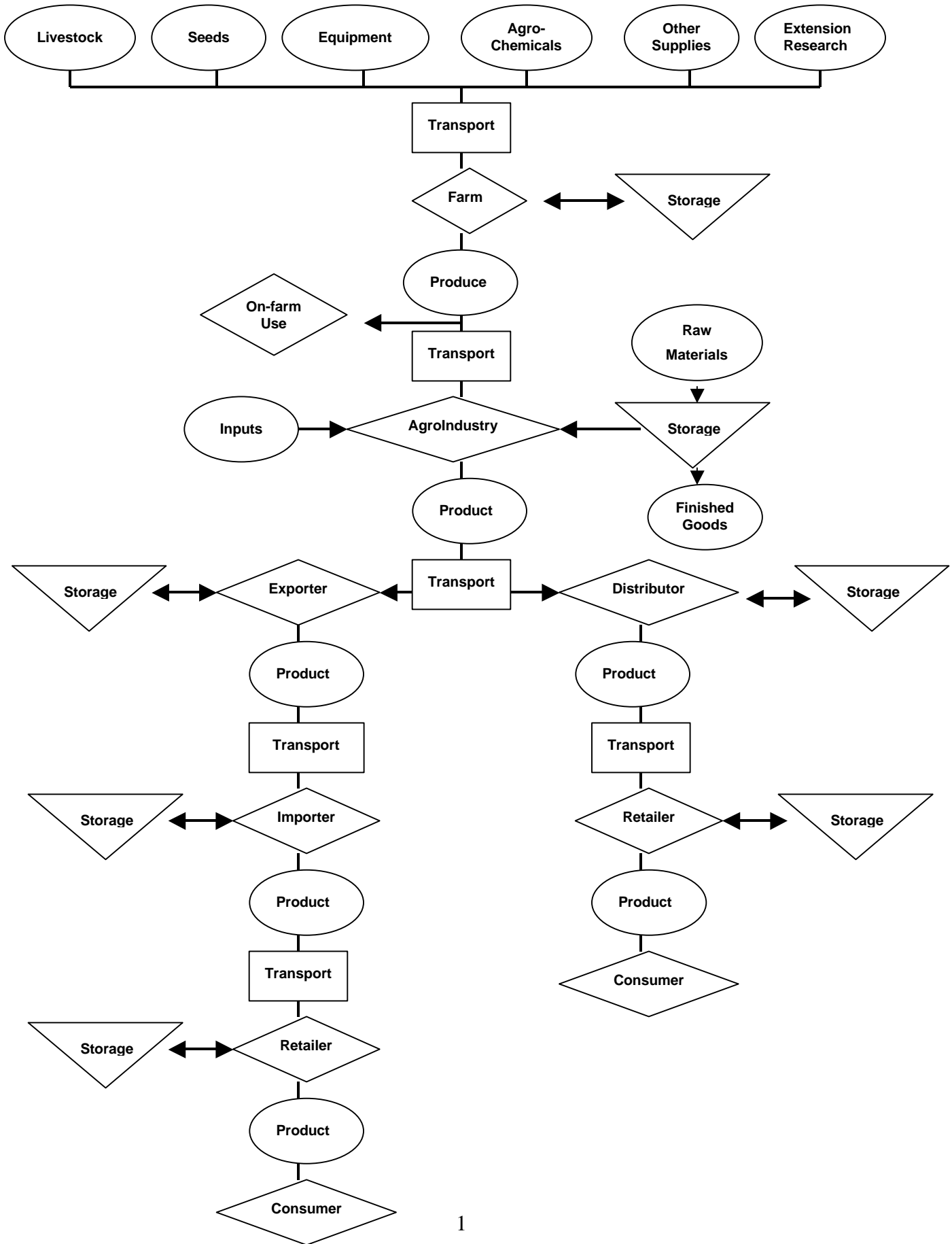
A classic depiction of the agribusiness sector is presented in Figure 1, next page. ADCs must be able to intervene anywhere along this chain of activity for the commodities or subsectors it chooses to focus on. This commodity chain approach enables an ADC to identify weak links in an otherwise promising activity and to concentrate assistance on reinforcing that link.

What can ADCs accomplish? Among some of the soft and hard results, ADCs can:

- Improve access to markets, information, technology and capital.
- Assist in the creation of agribusinesses.
- Increase marketable surpluses.

- Lower unit costs of production, transport and marketing.
- Encourage and facilitate innovation.

Figure 1. Flow Chart of Agribusiness

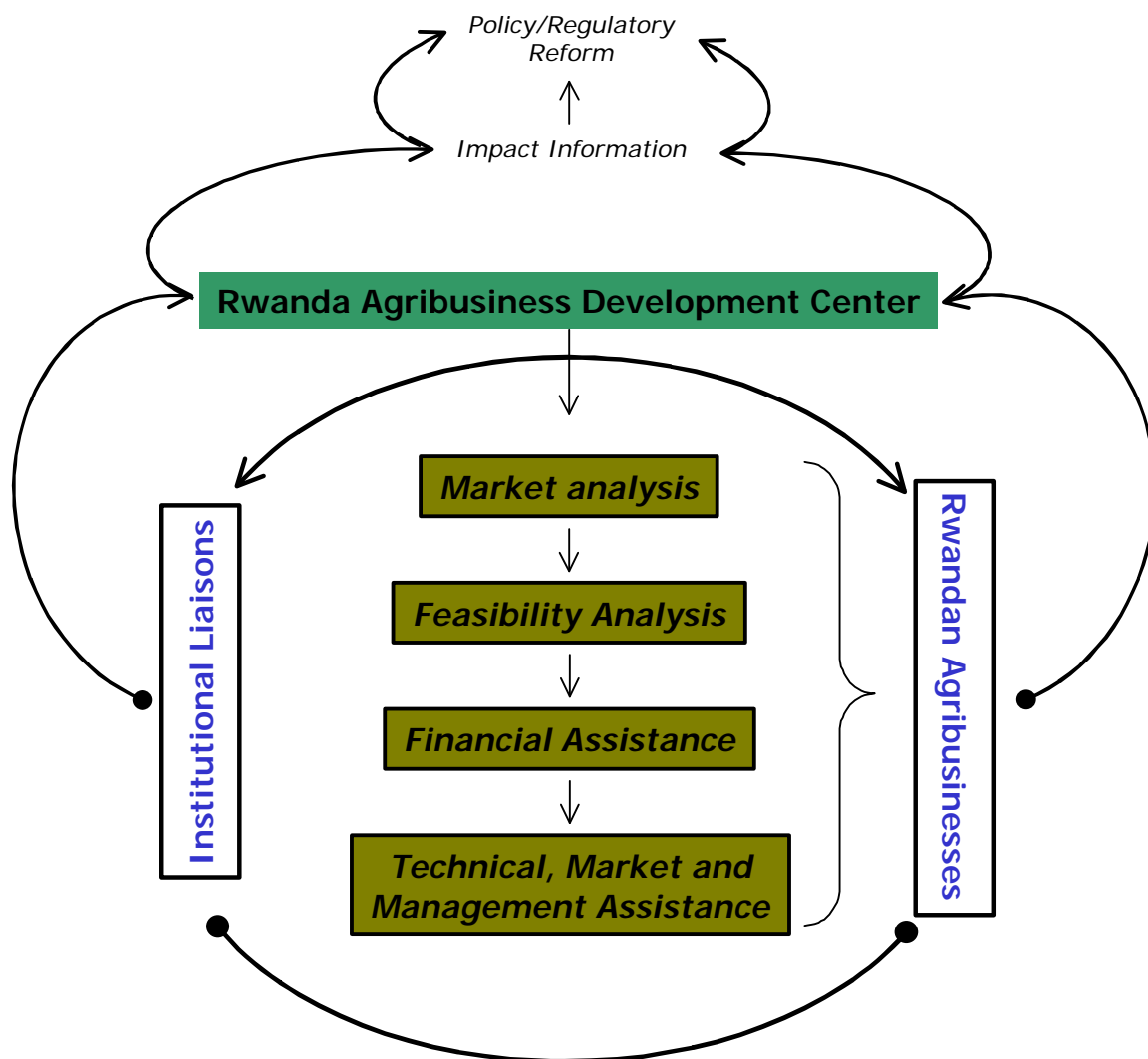


Help individual enterprises coalesce into a cohesive industry group.

- Attract capital, private and donor.
- Strengthen backward (supplier) and forward (buyer) linkages.
- Enhance profitability of a business and subsector, increasing investment and sustainability.

Figure 2 illustrates one way of conceptualizing the flow of services. As depicted, by addressing various aspects of agribusiness operations, starting with an understanding of the market, an ADC intervenes where necessary to assist promising agribusinesses. Keep in mind that the exact services provided any one client are determined by the needs of that client. So it is not necessary that every ADC client activity begin from the top. In fact, for existing businesses, an ADC may

Figure 2. Flow of ADC Services



jump right into extending technical (including production), marketing, and management assistance. For others, the focus may be on financing. In all cases though, ADCs extend services only to those operations with real market potential.

2. 2. Of Lessons and Guiding Principles

ADCs are not a new phenomenon. Governments and donors alike in many countries have used ADC-like initiatives to varying degrees of success. This experience provides a wealth of lessons learned. In considering the development of an ADC, it is informative to draw from these lessons a set of guiding principles and expectations, including:

- ADCs should be for the private sector, by the private sector; demand driven; and seek client commitment. Commitment on the part of the client is essential, whether it is indicated through cost sharing or an existing investment.
- Timing is everything. The level of success of an ADC is dependent on a number of factors, but an often-overlooked factor is timing. An ADC that is a head of its time will constantly battle an unfavorable policy milieu.
- Need does not always translate into demand. The implications are that there may be an extended period of education and awareness building, before the need is translated into a demand that attracts the interest of private suppliers.
- ADCs are rarely profit making operations. Like the majority of business incubators, which in some respects ADCs are a specialized form of, their return on investment comes from the economic benefits (income, wages, investments, exports, taxes, etc.) realized by the agricultural activities and businesses created or sustained.

A Cautionary Note on Financing

Predisposition to Agribusiness. Lack of credit is often seen as one constraint that if removed would lead to an explosion of agribusiness growth. While this may be true sometimes, lack of credit is usually only part of the problem. Still, especially in countries with bank liquidity, it is believed that ADCs can play a catalytic role in breaking the dam to capital. The reality is that a few words of support and perhaps a better business plan will not free up available capital in an institution that is predisposed against lending to what it perceives as a risky sector. While the impact of an ADC in raising capital can be significant, in the face of such negative perceptions, it will take time and perhaps some specialized programs targeting the lender instead of the borrower.

Credit Availability v. Access. The two are not the same. A capital gap occurs when there is insufficient liquidity in the banking system leading to a lack of credit availability. In countries with liquidity, credit access is often the problem. Issues of credit access are more systemic and manifest themselves in the lending requirements, e.g., excessive collateral demands and high interest rates and fees (which account for perceptions of increased risk in the sector, lack of information and skills in agribusiness assessment, and the cost of monitoring).

Low Equity. Agribusinesses often lack sufficient equity. Banks, or often it seems the better ones, are loathe to lend more than 50% (sometimes 60%) of total capital needs. This requires a level of equity that frequently is not within the reach of the entrepreneur.

Micro Finance Institutions (MFI). Smallholders and micro-processors would seem to be a natural fit for many MFIs. Experience says no. Most MFIs target urban and peri-urban areas, not rural. They seek out the tailor, the barber, the consumer goods retailer because MFI programs, based on best practices, typically demand regular payments (weekly or more frequently) that agriculture can not accommodate, and the concentrated urban/peri-urban market keeps monitoring costs low. There are examples of successful smallholder lending programs, but these are seldom provided through an ADC. Rather, they are initiated by a lender with the "backroom" systems to decrease the loan processing and monitoring costs, while expanding

- ADCs, likewise, are hard to privatize as a unit. ADCs must remain supported through an endowment, donor money, tax revenue etc., or their services spun off to the private sector, not through sale but through adoption. That is to say, as a result of the ADC training local service providers and building awareness and demand for such services, it works itself out of a job.
- A sound ADC facilitates, educates, informs and assists. It is a catalyst. Though difficult at times, the technicians must avoid the temptation to do it themselves. This implies a slower, but more deeply rooted and sustainable impact.
- Successful ADCs are long-term investments, e.g., five or more years. The creation of ADCs is usually the result of imperfect market conditions on either or both supply and demand side. These are not issues that an ADC can address in a short period of time.
- ADCs need to be responsive and pro-active. Technicians can not be desk-bound. The services must be taken to the clients.
- Businesses have a life cycle and their needs will vary by where they are in the life cycle. Services should be flexible. However, if the ADC services are constricted by budget, then the precise services need to be carefully selected to achieve the objectives established for the ADC and then well publicized.
- The better ADCs are network builders. They leverage resources of existing organizations and businesses, whether government, donor, or private (e.g., consulting firms, research programs, university, extension services, banks, etc.)
- Independent but inclusive. ADCs should respond to the market, and as such should remain outside government control. However, ADCs should have a steering committee or board of advisors dominated by the private sector but with important representation from key partners, e.g., Ministry of Agriculture and/or Commerce, university, research stations, etc.
- Due to what are usually limited resources (capital, human and time), client selection is critical. Once the ADC starts to work with a client, it can be hard to cut loose. It is important therefore to be selective, to pick the winners, and to stay focused on what is in the manageable interests of the ADC. Having said this, such selectivity is much easier later in the life of the ADC than at the outset. Early on, some poor client selection is invariable.

3. Of Possible Markets and Services

The type of services an ADC might offer flow from the market it seeks to target. There are several ways to cut the agribusiness market for an ADC. Four broad possibilities are discussed here. It is important to remember that the greater the breadth of services offered, the greater the depth of skills required in-house. This then becomes a cost issue. One way to manage this is to offer extensive assistance that is focused on just a few commodities.

- Agricultural SME (e.g., trader, processor, supplier, transporter, etc.). Largely downstream from the producer, the focus is on improving management efficiencies, marketing, cash flow, financing, etc. These could be SMEs working in high or low value commodity chains.

- Producer (smallholder as well as commercial scale). The services focus on improving returns through improved field practices, i.e., increased yields at lower cost per kilo produced, for producers of high or low value commodities.
- Agribusiness Consulting Providers. ADC services here seek to enhance the skills of local business advisors and to foster the development of the consulting industry in order to provide sustainable advice delivery over the long term.
- Agribusiness Financing. Services concentrate on increasing the flow of non-donor capital to agriculture (downstream agribusinesses and small and large producers) whether through agricultural lending programs, liquidity enhancing or risk reduction schemes, improvements in back room efficiencies, etc.

B. The Rwandan Context and Market for ADCs

Before looking at the structure and services of a possible ADC in Rwanda it is useful to consider the existing agricultural landscape and potential market for any ADC services. A series of preceding documents on financing, transport, and policy, as well as the Committee of Experts report, World Bank research and other documents greatly informs this summary presentation.

1. Rwandan Agriculture

- Agriculture is largely smallholder driven. These farmers tend to be ill informed, fragmented, with low skills and limited market orientation.
- Local market for primary agricultural goods has shrunk due to the war and its aftermath repercussions. Local market for upscale, high quality fresh and processed commodities is tiny. Landlocked nature, inconsistent transport policies, and constrained uplift capacity make exports difficult.
- Declining soil fertility due to population pressure (somewhat relieved as a tragic result of the war and genocide) and low use of inputs. Since the war, production has not yet reached 80% of 1990 levels. The causes of this are varied and include:
 - ▣ Housing situation that leads to household expenditure of time and money on shelter concerns rather than on production and purchase of inputs.
 - ▣ Labor constraints. Before the war it was generally agreed that there was a rural labor surplus. Since the war there is now a labor shortage stemming from the genocide, exiles, imprisonment, resettlement and restrictions on mobility.
 - ▣ Lack of organization of rural-based wholesale markets.
- Low available seed stock due to its destruction or consumption during the war and the inability of poor smallholders to rebuild stocks due to weak harvests and the ensuing need to consume stocks. A significant percentage of small ruminants were destroyed and have as yet been re-established. Cattle fared better.
- Rural transport assets suffered greatly during the war and many of the entrepreneurial middlemen killed. Though there is some conflict about current availability, in general there is

lower available rural transport capacity and what is available tends to be small in tonnage and, therefore, less efficient.

- Already low fertilizer consumption has declined further. In 1991, fertilizer import volume and value was estimated at 7,490mt and FRW 389mm. In 1996, this had fallen to 1,172mt, with a value of FRW 84mm. Fertilizer use is estimated at 1kg/ha compared to sub-Saharan Africa use of 15kg/ha.
- There is some debate as to which crops respond well economically to fertilizers given current low producer prices and high cost of inputs.
- Producer prices are low in real terms due to decreased demand, market inefficiencies, and direct and indirect government influence.
- Low return to farm labor and inputs on coffee and tea has stunted otherwise promising export subsectors. Government involvement in tea has resulted in 12% of world price in 1997 going to producer versus 31% in 1987. Coffee prices per kilo are up from FRW115/kg in 1990 to FRW 350/kg in 1997 but this represents a loss in real terms of 4%. The response by farmers is predictable and is resulting in poorer quality, which further reduces returns. Government actions are again a major cause for this situation.
- There is in general a lack of organization in domestic production (price discovery, production techniques, handling, transport, etc.).
- **Summary:** *Markets are inefficient, diminished local demand keeps some producer prices too low to justify improved inputs even if available, and a few ill-advised regulations constrain traditional exports. Rwandan agriculture has a ways to go to return to pre-war status.*

2. Rwandan Agribusiness

- The high value and off-farm low value agribusiness sector is not large. In 1986, a survey focusing on the SME agribusiness sector identified fewer than 10 firms. The same survey suggested that 13 possible agribusiness investment opportunities existed, with varying degrees of appeal and risk.
- A recently completed UNIDO document identifies 20 possible agribusiness investments (from juice, jams to dehydrated fruits to honey to essential oils to papain to chips to frozen fries to flour to animal feed and mineral water and more). All are seen as having a local market with eight of these ventures potentially having an international market.
- The self-proclaimed largest fruit processing enterprise in Rwanda consists of two approximately 50 gallon vats and a small wooden press.
- There is one flower exporter, who is attempting to entice new investors into the field, realizing that to truly succeed he requires uplift capacity that is not available through Sabena.
- There are private consultants in Kigali who can help prepare feasibility studies and loan requests; however, very few specialize in agribusiness and quality is mixed. A firm named *ArI-Co. s.a.r.l.*, did a feasibility study for the Laiterie Inyange. The prices mentioned for doing such studies range from \$800 to \$100,000!

- There are few associations, though growing interest in such. There are at least three organizations of female entrepreneurs. The “Association des Femmes Entrepreneurs au Rwanda,” PRO-FEMME, has 72 members, but none of them now has an agribusiness company. The Rwandan Women Community Development Network has about 1,000 members and has made small loans to individuals and cooperatives to start small agricultural businesses. The “Association pour l’appui à l’entrepreneuriat Féminin” is said to have 2,500 members, nearly all at the micro level.
- The Rwanda agribusiness entrepreneur is largely risk averse, with low managerial skills, a short-term outlook and a preference for an import substitution market.
- Some returnees, however, bring a new attitude, equity and better skills.
- **Summary:** *Assuming some possible growth between 1987 and today, great loss as a result of the war and some returning talent and money, 50 existing agribusiness SMEs would be an optimistic estimate. A relatively small market for an ADC, made even smaller if the focus is on those with true potential.*

3. Finance for Agribusiness

- There is liquidity for short-term loans, but not for agriculture. Medium and long-term capital is largely not available. Between 1-5% of outstanding loans are reportedly in the agricultural sector. Abysmally low for an economy driven by and dependent on agriculture.
- Reasons for this low level of ag-related lending may include the mismatch between the short-term, demand funds available and the longer term required of agriculture; poor training in agricultural lending techniques; perceived high risk of sector; and historical performance of agricultural loans.
- The Banque Rwandese de Developpement is talking a good show (special windows, leasing, export processing zones, etc.) but nothing is as yet in place.
- Rural needs for credit in order of importance as stated in 1998 World Bank report: livestock purchases; seeds/labor/other inputs; non-ag activities, including vehicles.
- **Summary:** *Assume that finance, especially medium to long term financing, will remain a constraint for the duration of the project. Shorter duration, working capital may be available for cash flow matched (i.e., contract based) borrowers with collateral.*

4. Other Organizations Providing Similar Services

A number of other organizations in Rwanda are planning projects that are relevant to the formation and growth of agribusiness firms. These include the World Bank, the European Union, the United Nations Industrial Development Organization, the Government of Rwanda, non-governmental organizations and private consultants.

- The World Bank is planning to sponsor the creation of an export and investment promotion agency and a commercial arbitration center. Two other activities are also of interest given their complementarity with certain ADC activities:

- ▣ A matching funds program, through the "Federation du Secteur Privé," to provide a firm with a matching grant to undertake initiatives in support of business development, e.g., business planning, training, marketing, etc.
 - ▣ The Agricultural & Rural Market Development Project, which has begun operation. This project has two components. One component is the "promotion of input use and distribution systems" and the second is "support to local agricultural marketing systems." The former is comprised of three activities access to credit for modern inputs (a line of credit for importers of inputs, a credit insurance facility and a revolving small farmer input credit facility); advisory services for adoption of modern inputs and access to credit (to be implemented by local and international NGOs); and the multiplication and distribution of improved seeds. The latter also includes three activities crop conservation, processing and marketing technologies; strengthening of rural agricultural marketing poles (infrastructure improvement and institutional support); and private sector investment in marketing services.
- The European Union operates a project known as PASAER, which is helping to rebuild the Ministry of Agriculture. Also the EU maintains information on European markets for some of Rwanda's agricultural products.
- The United Nations Industrial Development Organization has a program entitled, "Petites et Moyennes Industries et Artisanat." This includes the establishment of three or more "Community Industrial Production and Training Centers," whose work will include food processing. The program will have a grants coordinator, project analyst, marketing person, and two junior staff members. UNIDO has an excellent training manual for food processing, which is being translated for use in a project to help female entrepreneurs in Rwanda. The course takes six weeks, full time. The training equipment will be housed at the Kigali Institute of Science and Technology, KIST, and can be carried to the countryside on pickup trucks.
- The International Fund for Agricultural Development has a project entitled, "Promotion of Rural Micro and Small Enterprises." It is working in 15 communes in three areas including Ruhengeri and Byumba and helps with organizing associations, management training, project development, and obtaining and managing credit. Business activities pre- and post-agricultural production are included.
- The Ministry of Social Affairs of Rwanda has a project proposal to assist with "Agricultural Production, Post-harvest Transformation, Storage and Environmental Production Technology." It has apparently not been funded.
- Non-governmental organizations that work with agribusiness include the Business Center, CARE, GTZ, and others.
 - The Business Center has several services including agribusiness feasibility studies. Besides the head office in Kigali it has agencies in Ruhengeri, Kibuye, Kibungo, and Cyangugu.
 - CARE has done analyses of the small livestock and charcoal industries and helps with small loans. Also it will help producers organize joint marketing associations.

- The German cooperation organization, GTZ, has a program entitled, "Creation d'Enterprise/Formation d'entrepreneurs," CEFÉ, which will feature training but will not focus on agroentrepreneurs.
- The Service Center for Cooperatives, CSC, in Gitarama, provides training, organizational development and market research to cooperatives of farmers and agricultural middlemen near Gitarama.
- Activities of the "Asociation Rwandaise de Developpement Intégré," ARDI, include working with a number of honey producers.
- In Byumba, World Vision has helped set up agricultural supply stores and is planning to store and market produce from the farmers it assists.
- Some Catholic parishes establish small businesses to help their parishioners. For example, the Parish of Kamonyi, Diocese of Kabgayi, has set up a small firm to make cheese using surplus milk from dozens of families.

SECTION II. PROPOSED RWANDA AGRIBUSINESS DEVELOPMENT CENTER

The following outlines the elements of the proposed Rwanda Agribusiness Development Center (RADC). The recommendations are based on the following assumptions:

- Project life of three years. (Some what limited vis-à-vis the initial financed period for other ADCs, but manageable.)
- Budget of US \$3 million. (Restricts service options.)
- No policy focus as the project can not afford the gestation time for resolution of many policy issues. Nor can it afford to "purchase" policy. Still, as a facilitator of agribusiness development, the project will be able to provide input regarding the actual impact of policy actions taken or not (see Figure 2, page 6).
- Interest lies in complementing not repeating existing efforts, regardless of their perceived potential effectiveness.

A. Goal and Theme

The goal of the proposed Rwanda Agribusiness Development Center (RADC) is improved market efficiency through the provision of services that assist agribusinesses and enhance market performance. Targets of opportunity could include, among other things, improvements in dissemination of market information, market channels, contacts (know-who), technology (know-how), market infrastructure, agribusiness management skills, etc.

Why a market efficiency theme? Even in a less than transparent, efficient or effective policy (macro), regulatory (micro) and competitive (operational) environment, improvements in market efficiencies (how business gets transacted) can increase margins throughout the chain. This helps the producer, the trader, and the consumer. In effect, though the pie may not expand, the participants achieve greater returns from their slice of it. The idea is to reduce the cost of market transactions.

B. Target Clients

The project will focus on the business side of agribusiness more than the production side. As such, emphasis will be placed on commercial production (rather than smallholder) and post production services and activities.

Why this focus? Many of the more pressing smallholder issues are or will be addressed by other donor initiatives. These efforts will be important to the RADC as a network of technical advice and services to tap, to coordinate with and to leverage for RADC's agribusiness clients. The focus is also a better fit between likely market size, level of project funding and duration of project.

Too, entrepreneurs who start businesses and make them grow or expand existing ones are critical agents of change. These business people accelerate the generation, application and spread of innovation. They push the economic boundaries and introduce efficiencies.

The focus does recognize that a fragmented system of production, handling and marketing results in poorer returns and a lack of international competitiveness for otherwise exportable crops. Moreover, agri-based businesses include input and service suppliers, marketers and exporters, and processors. For many of them the smallholder represents either a buyer or a supplier (e.g., outgrower schemes). As a result, the focus on the business in agribusiness does not preclude services to small producers. However, such would largely be delivered in the context of a market, i.e., market driven, where a business has interest in a commodity and therefore in improving yields, improving quality, or in adding value in the field.

C. Objectives/Activities

The essential objective of the proposed project is straightforward: Increase rural household incomes. Specific performance benchmarks as indicators of success in achieving this objective are not suggested here, as it is premature in the design effort to do so. However, when established these targets should be established against some reliable baseline and defined in the simplest terms possible, e.g., household income increases in project areas, or sales volume and value of project assisted commodities and/or businesses.

Some activities that will contribute to achieving the project objectives are listed below. They are somewhat arbitrarily segregated into primary and secondary. The attempted distinction is informative as the latter set of activities, while important, are considered more dependent on changes that the project may have little influence over, e.g., policy, than the former. It is recognized that some of these activities, primary and secondary, are closely related and that results towards achieving one will contribute towards achieving another.

1. Primary Activities

- Stimulating and supporting technology adaptation and transfer. This could include better transport, storage, handling, processing, or production packages, etc.
- Adding value to existing crops and products through handling, packaging, or transformation.
- Enhancing productivity and competitiveness at the enterprise and industry-level through introduction of value adding methodologies, better management, technology, market efficiencies, etc.
- Improving the profitability of agribusinesses.
- Creating direct and indirect employment and adding to the income of owners, workers, and suppliers.

2. Secondary Activities

- Fostering new crop and product development.
- Expansion and diversification of agribusiness economic activity
- Increasing market share in existing and penetrating new markets.

- Increasing the volume and value of domestic and export sales.

D. Strategic Approach

Elements of a proposed strategic approach are provided here and based on the guiding principles, assumptions, and understanding of the Rwanda context previously discussed.

- Limit the number of commodities, but treat the entire commodity chain of activities for those selected. Become a one-stop center for any activity that has to do with a selected commodity. (The Committee of Experts report and the Stakeholder Meeting of November 4, 1999 report offer guidance on commodity selection.)
- Focus on growth with equity. Because of limited funds and time, it will be more cost effective to work with large companies or organizations than smaller, and existing businesses (irrespective of size) than start-ups to the extent that either or both are available, are potential winners and are working in target commodity groups. However, preference should be given to those investments with significant full-time employment opportunities or outreach potential, e.g., outgrower programs.
- Stay flexible and agile, within defined commodities. No matter how much prior planning is involved, some questions can only be answered in the course of implementation and some opportunities can only emerge as a result of implementation. The upshot, the long-term team should possess broad skills and be complemented by short-term, "smokejumping" consultants.
- Be market driven and proactive. Avoid the temptation, especially early, to make things happen, but do market RADC's availability and services. Practice the marketing skills that RADC will seek to impart.
- Remain independent of the GOR; however, do establish a Steering Committee with government representation and a private-sector majority. Participation might include, for example, the Federation of Business Associations; 4 business clients representing targeted activities; one each from MiniCom, MinAgri, ISAR, and the university or KISS; and a representative from a relevant NGO or a donor project (if working in complementary fields, e.g., the WB Agricultural & Rural Market Development Project).
- Recognize that this is a high risk endeavor (the project faces country risk political, economic and geographic and sector risk, agriculture is volatile). This argues for the ability to diversify portfolio activities.
- Sustainability in a classic accounting, profit/loss fashion is not expected. Rather, sustainability is determined by client results and on how activities are picked up and

Defining Selection Criteria That Cut

Funds and time horizon demand that RADC establish clear cut and transparent criteria for selecting the clients it will work with. Among the points that will cut are:

- Size of "real" market potential
- Export or local market
- Obstacles to realizing market potential
- Company status:
 - ▣ Existing businesses v. new
 - ▣ Small v. large business
 - ▣ Indications of commitment
- Breadth and depth of employment
- Availability of financing
- Degree of leverage, capital and human
- Degree to which ADC can affect change
- Dense or dispersed production area

With some modification in the phrasing, these same criteria can help in the selection of target commodities.

sustained by the private sector, e.g., more financing for agribusiness, better consulting services and improved linkages with markets and suppliers, etc.

- Leverage is the watchword. Financial resources are limited so identifying and networking with key actors is important, as is the use of cost sharing and catalytic financing grants.
- Need for a transparent client selection process. The box to the right discusses some possible cutting issues to consider when selecting clients and targeting commodities.

E. Commodity Chain Services

In the present environment, the opportunities for RADC to fill service voids are quite numerous. A modest-in-scope training needs assessment targeting women entrepreneurs completed in late 1999, identified the following constraints, in order of importance: need for better or cheaper packaging materials and techniques; lack of working capital; inadequate management skills, markets and marketing; poor or expensive transport; poor processing sanitation (quality control); need for processing technique information; and lack of training. Each of these constraints represents a service opportunity for a RADC. Other services are listed here for purposes of further illustrating the types of activities that the center could be asked to assist with for a particular commodity. In reviewing the list, agriculture is used in a broad sense to mean both crops and livestock.

- Legal formation of business entities.
- Market information/potential/requirements for fresh/processed agricultural products.
- Maintenance of documentation center.
- Subsector performance data for benchmarking.
- Preparing feasibility studies and credit applications.
- Marketing and operating plans.
- Agronomic suitability studies, variety and seed selection.
- Agricultural production, including pest and disease control.
- Establishment of demonstration sites.
- Agricultural production technology and equipment.
- Post-harvest handling technology and equipment.
- Food processing technology and equipment.
- Improvement in marketing infrastructure, i.e., physical facilities.
- Sanitation and quality control.
- Establishment and management of outgrower programs.
- Development of input distribution schemes.
- Seed nursery development and management.
- Marketing, storage and transportation.
- Management, marketing, and financial (especially cash flow) training.
- Association or cooperative development and strengthening.

Harking back to the first point under Strategic Approach, and the ones that follow, any targeting that is done is best done through the selection of commodities rather than limiting the services available to those selected commodities. Reality also says though that RADC will have to limit some of its services in view of the assumptions, activities of others, and information gleaned from readings and interviews. Still, one can envision the following services:

- Market Analysis/Information. Entrepreneurs will need information on demand, competition, prices, and buyers in local, regional and international markets. The RADC should be prepared to respond to requests for information on the commodities that it selects to cover. Market studies can be done by staff of the agribusiness center, or by outside consultants under supervision of the center.
- Financial Guidance. Actual and would-be entrepreneurs need help in determining the financial feasibility of investments, completing their business plans, in deciding which kinds of financing to seek and from which organizations to seek it, and in completing their applications. This service will include advising on financial structures and sources of funds, helping complete loan applications, and assisting with feasibility studies or business plans. In most cases the entrepreneur and an outside consultant will write a business plan, with guidance by the manager of an agribusiness center.
- Technical, Market and Management Assistance. It appears there is a significant need in Rwanda for information on production techniques, post-harvest handling, processing and packing agricultural products, and on standards and quality control. There is a need to understand the markets better, e.g., in what shape and form, for what quality and at what price. There is also a need to find equipment that will be economically viable for small-scale operations. This service will include one-on-one technical assistance, training and group assistance. Cost sharing grants could be a useful tool in the delivery of assistance. Information on standards and quality control will be available. Assistance will be provided by RADC staff and outside consultants, supervised by the entrepreneur and the manager of the agribusiness center
- Referral for Technical and Management Training. The agribusiness center is not likely to be staffed to undertake significant training. However, given the number of complementary activities planned and underway in Rwanda, RADC's role could be one of selective participation in other programs, training of trainers (e.g., building local consulting capacity) and sharing the cost for some of its clients to attend other training programs. This is an important activity; however, it is one in which RADC will need to play a supportive role more often than a lead role.

F. Organization and Location

As a service operation, RADC needs to be nimble. It should maintain low cost facilities and provide technical assistance to agribusinesses within selected commodities, wherever feasible for nominal fees or require some level of pre-existing investment. The office should be established where there are actual and potential agro-entrepreneurs that might use its services, and in this regard Kigali would appear to be the best location. Consideration was given to locating the Kigali office in the new Federation of associations, but there is a fear that this group is becoming over-committed. In lieu of this, the present office space of the design team offers an excellent location for RADC's Kigali office, and should be kept if at all possible through the project review and contracting process.

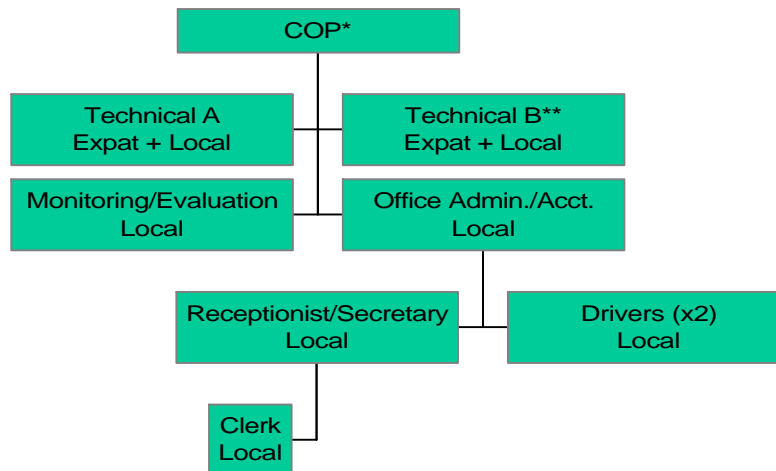
Though the office would be in Kigali, the staff must have a continued presence throughout the country. Something that is eminently feasible given Rwanda's small size and good, primary road network. If demand justifies the need, a satellite office(s) can later be considered against budget.

Ruhengeri and Gitarama, and then the cities of Butare and Kibuye, are the mostly likely expansion sites.

RADC's staff is proposed at two to three expatriate professionals with an equal number of local professionals, an office manager/accountant, a receptionist/secretary, two drivers and an office clerk. Each professional will have a desk and computer, one phone per office. In the present office space, this will require doubling up on three of the offices, but this is manageable. There is ample parking. Figure 3 suggest one organizational structure.

The COP, or managing director, is key. The individual needs significant experience (minimum of 15 years), preferably with the private sector, with a good amount of exposure to agribusiness growth issues in a developing country, and hands-on knowledge of at least some of the targeted commodities.

Figure 3. Suggested RADC Organization



* Depending on the number of technical positions, the COP may have to be more or less technically, as well as managerially, active.

**Optional depending on funding.

G. Implementation Suggestions

Product selection will define to a great extent the services that RADC is likely to need to provide in order to have impact on the selected commodities. Whatever commodities are chosen, a few ideas are offered here to assist manage the delivery of services.

1. Financial Leveraging

Cost sharing programs and catalyst funds are two ways to stretch limited budget. The former targets the client company, while the latter targets lenders to encourage the provision of credit to client companies.

- Cost Sharing Grant Program. In light of some of the needs and services possible, RADC should establish a cost sharing grant program with the flexibility to share with the applicant the cost of 1) engaging local consultants for business related services, 2) purchasing equipment, or 3) assisting with market penetration. One program rather than three mitigates management burden and provides flexibility to respond to demands, i.e., there is no need to guess how much funds to set aside for which cost sharing grants program as RADC will have only one. Also, it does not tie up funds should there be little demand for one aspect of the program and more for another.
- Catalyst Fund. A small catalyst fund would enable RADC to "invest" a small amount of capital in a company where such money would be the catalyst to raising other capital. In light of a banking sector that is extremely averse to agricultural loans, a small amount of quasi-equity may be just what is needed to make the now smaller loan more attractive. There are three reasons that such a fund may succeed. One, collateral will go further as security against any loan. Two, the lender would know that the company would benefit from continued RADC management advice given its financial interest. Three, RADC would not have any call on assets.

An alternative approach would be to use the catalyst fund to guarantee a portion of the lenders exposure. This has some of the same benefits as the quasi-equity use with the added benefit that it takes full advantage of existing bank liquidity and, as a guarantee, conceivably could be leveraged. The disadvantage, in addition to continued RADC work with the client, a guarantee would require oversight of participating banks and more training than a catalyst fund.

2. Establish a Monitoring and Evaluation Unit

Though this takes money out of an already small budget, an internal M&E unit of even one capable local hire can provide the kind of feed back on services rendered that will lead to better use of funds.

3. Partnerships

To leverage its human and financial resources it will be important for RADC to seek out and form partnerships with other projects and organizations that offer services complementary or additive to RADC's. Such opportunities exist within USAID/Kigali's portfolio, e.g., ACIDI/Voca monetization program that could provide additional funds for specific RADC programs or services, the "under consideration" agricultural training program with the university for adapted marketing research or intern programs, the World Bank's Agriculture and Rural Market Development project, UNIDO and others.

4. Clusters

By looking for areas in which certain productive activities are or could be concentrated it would be easier and more efficient to deliver needed services. Such "clusters" give rise to collective efficiency, enhanced competitiveness and improved response to opportunities and crises that is missing from fragmented production. The approach can:

- Lead to improved market access.
- Increase production, sales and reinvestment opportunities.
- Result in greater specialization and increased efficiency.
- Increase in quality.
- Lower transaction costs.
- Foster marketing, finance, and technology access.

Products that might be appropriate for such an approach in Rwanda include, among others:

- Potatoes (over 40% of national production may come from Ruhengeri prefecture).
- Hides and skins.
- Cattle (perhaps more than 30% may be raised in Umutara prefecture).
- Tea (nearly 40% may be produced in Byumba prefecture).
- Airfreight items (concentrated within an acceptable delivery time of the airport).

ANNEX A: PERSONS CONSULTED

Abedi, SNV, Gitarama, 62698/62699 (work)

(SNV receives Dutch technical assistance and works in training, organization and financing of community development. This is a potential host office for an agribusiness center in Gitarama.)

Mary Balikungeri, Programme Coordinator, Rwandan Women Community Development Network, Kigali, 77199 (work), 08300984 (mobile), 77199 (fax)

Nsengimana Evase, Emballage Rwanda, 75705 (work), 08504422 (mobile).

(Only packaging operation in Rwanda. Exports and keen on outgrower program.)

Charlie Feezel, Center for Human Capacity Development, Global Bureau, USAID, Washington D.C., 712-1853 (work), 216-3229 (fax).

(In Rwanda to design training program for AID SO1.)

Sebunyana Geoffrey, Kigali-electronics Ltd., 73606 (work), 08500195 (mobile).

(Thinking of setting up a plant to produce French fried potatoes for export but has not yet done a feasibility study.)

Gerda Heyde and Gabriele Hermann, ONUDI, 73902/76608 (work).

(G. Hermann is establishing a woman's agribusiness development program.)

Jean Claude Hincq, Administrateur Directeur General, ETIRU (Ruhengeri), 546-456 (work).

(Wheat milling and coffee factory.)

Alan Huyu, European Union, PASEAR Project, 87193 (work).

Isibo-Rutimirwa Alexis, Phoenix s.a.r.l., 78799 (work).

(Planning to intercrop garlic and passion fruit and produce garlic powder and passion fruit concentrate.)

Dr. A.M. Jose and Dr. M.A. Lizy (husband and wife), Dept. of Economics, National University of Rwanda, 32016 (work), 32142 (fax)

(Working on establishing agribusiness program at university. Possible contact for business curriculum and intern programs.)

Agnes Kayjire, Directrice de l'Industrie, M. du Commerce, 76608 (work), 08503154 (mobile).

Jean-Calvin Kayiranga, Managing Director, Laterie Inyange, 71941 (work).

This is a solid company, producing milk and yogurt and preparing to go into the bottled water business, and is recommended for future contact.

Jeanne d'Arc Kayitesi, Association of Women Entrepreneurs, 76008 (work)

(None of the association's members is in agribusiness. She is thinking of starting a fruit juice plant but is only beginning to do the required "homework.")

Kana Seraphin Khonje, Chairman/CEO; PROFIX, 085-01166 (mobile).
(Representative in Rwanda is a Mr. Julien. Bidding on the pyrethrum plant near Ruhengeri.)

Charlie Koo, Program Associate, Association Liaison Office for University Cooperation in Development, Washington D.C., 478-4700 (work), 478-4715 (fax).
(In Rwanda to design training program for AID SO1.)

Dr. Silas Lwakabamba (Rector), Anne Bucyana (Dept. of Food Science & Technology), and Rajiv Agarwal/Alphonse Nonabonzima (Chief Librarian), Kigali Institute of Science, Technology and Management (KIST), 74696/74625/74698 (work), 71923 (food science)
(The new Department of Food Science will become operative in March.)

Raphael Mpayana, IFAD Coordinator, 76864 (work).
(Has a project that is relevant to the agribusiness centers.)

Edson Mpyisi, In-country Coordinator, MSU Group, 82572 (work), 08301757 (mobile).

Mr. Muhizi, Service Center for Cooperatives (CSC), Gitarama, 62096/7 (work).
(Active organization helping cooperatives of farmers and agricultural middlemen.)

Dr. Mugunga Muhinda, Director of Research, Rwanda Agriculture Research Institute (ISAR), Butare, 32017/32089 (work), 08501762 (mobile), 78768/32170 (fax).

Theonase Munana, Sorwatom, 74947 (Emujeco)
(Principal in this tomato paste company and is working to start it up again.)

Epitace Nobera, FEWS Field Representative Rwanda, Kigali, 84044/84043 (work), 73950 (fax).

Eugene Nyambal & Charles Schlumberger, World Bank, 72204/72068 (work)

Joseph Nirimana, Project Coordinator, Projet de Developpement des Marches Agricoles et Ruraux (World Bank funded), 84055 (work), 08302180 (mobile), 87226 (fax)

Raphael Rurangwa, Projet de Gestion de Espace Ruraux Buberuka (Ruhengeri), 546570 (work), 08301498 (mobile).
(Project of Fond Internationale de Developpement Agricole, FIDA, building rural market facilities at the commune level.)

Alphonse Sebawngo/Faida Valem/Nlabonimda Faustin, COODAF (Ruhengeri), 546117 (work), 08513769 (mobile).
(Principals of potato marketing and seed multiplication/distribution operation.)

Rev. Fr. John Baptist Uwigaba, Kamonyi Parish, Kabgayi Diocese

(Has set up a small plant to produce cheese (10 Kg per day) and has marketing problems.)

Peter Vandor & Laurent Gashugi, Representant and Chargé de Programme FAO, 73541/73593 (work).

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ANNEX C: AGRIBUSINESS CENTER - QUESTIONNAIRE

1. (after briefly describing the idea) What do you think of the idea of establishing a small number of agribusiness assistance centers?
2. If there will be only two or three of them, where in the country do you think they should be located?
3. What kinds of persons or organizations do you think should actually set up and run the centers?
4. Who should the clients be? What kinds of people or entities should the centers serve?
5. In general, what kinds of agribusiness do you think have the best potential in Rwanda?
6. There are many functions the centers could perform, like information, training, help with feasibility studies, technical assistance, etc. What do you think their main functions should be?
7. Which private and public people or organizations offer these kinds of services now?
8. What is your impression of these services? How good are they, and how expensive are they?
9. Given the ideas you've expressed so far, what kinds of facilities and equipment would a center need and about how much would they cost?
10. It is very important for these centers to keep going after USAID assistance ends in a few years. Do you think this is possible? How do you think they could generate the income to become self-sustaining?