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FINANCE AND CREDIT FOR AGRIBUSINESS: PROSPECTS AND CONSTRAINTS

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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 funding 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 economic policy. 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.

Mr. Harry Shutt completed this study on finance and reduction of investment risk in the agribusiness sector during a visit to Rwanda between 11 to 25 March 2000. This study is an elaboration of work done earlier by Mr. Shutt in AAD Working Document Series No. 1 on *Rwanda Financial Sector Profile: Impact on Agribusiness Investment*.

EXECUTIVE SUMMARY

This study is intended to provide the basis for designing a financial / credit component as part of the proposed AAD project, as well as to suggest other mechanisms for improving both the quantity and quality of lending to the agricultural sector, which has for long been conspicuously neglected by the banks as a whole.

There have been a number of recent initiatives to make loan funds available to targeted groups of SMEs and micro-enterprises in the rural and other sectors. These include loan guaranteed funds (notably for demobilized soldiers) and a “fonds de credit” set up jointly by IFAD and the Banques Populaires as part of a wider scheme (PPMER) promoting rural SME development in parts of Northern Rwanda. At the same time the government is seeking to establish a new agricultural guarantee fund (FGA) in place of the existing, discredited Fonds Spécial de Garantie, which is to be closed down.

Based on consideration of these initiatives and of the continuing constraints facing the economy and the agricultural sector it appears that a number of potential interventions could be considered in support of lending to this sector, including targeted lines of credit, guarantee funds, technical assistance to banks in loan management in respect of rural sector lending (a de facto cost subsidy), improving sources of information necessary to both investors and bankers involved in the sector.

The precise form of intervention (or combination of the different possible types) to be chosen will depend partly on the extent to which it is intended to target credit at a limited range of sub-sectors rather than agro-industry generally and on how far the aim is to devote a substantial effort to optimal preparation of projects (a relatively slow process likely to result in a relatively low level of implementation) or alternatively to maximize disbursement at the risk of a higher failure rate.

On balance it is concluded that the key intervention to be supported by AAD should be a loan guarantee facility targeted exclusively at agro-industrial projects. It is further concluded that the facility should be operated in conjunction exclusively with what is judged to be the most suitable banking institution for this purpose, the Banque Rwandaise de Développement, which has the strongest vocation for lending to the rural sector while at the same time appearing to have as strong a commitment to commercially sound lending as many of the commercial banks. An important additional feature of this component will be the technical assistance and training support provided to strengthen the BRD’s capacity for loan management both during and after the life of the project.

LE SOMMAIRE EXECUTIF

Cette étude a fourni des informations pour une mise au point d'un programme de financement et d'octroi des crédits comme partie intégrante du projet proposé. La même étude propose également d'autres mécanismes d'amélioration de la quantité et de la qualité dans l'octroi des crédits au secteur agricole, lequel a pendant longtemps, été négligé par les banques.

Tout récemment, quelques initiatives ont été prises en vue de disponibilité des fonds à l'intention des groupes cibles composés des petites et moyennes entreprises ainsi que des micro entreprises des secteurs ruraux et autres. Ces fonds comprennent un prêt de fonds de garanti (notamment pour les soldats démobilisés) et un « fonds de crédit » réalisé conjointement avec IFAD et les banques populaires, en tant que partie intégrante d'un programme plus large (PPMER) de promotion du développement des moyennes et petites entreprises dans les zones du Nord du Rwanda. Dans un même temps, le Gouvernement envisage d'établir un nouveau fonds de garanti pour le secteur agricole (FGA) en remplacement de l'actuel « Fonds spécial de garanti » qui doit être retiré.

En se basant sur la considération de ces initiatives et des contraintes continues auxquelles fait face l'économie et le secteur agricole, il est probable que beaucoup d'intervention potentielles puissent être considérées en matière de soutien du programme d'octroi de crédit à ce secteur. Ces interventions comprennent entre autres, des objectifs cibles pour le crédit. Les fonds de garanti, assistance technique à l'intention des banques en matière de gestion des crédits quant à l'octroi des crédits au secteur rural, amélioration des sources d'informations nécessaires aux investisseurs et banquiers concernés par ce secteur.

La forme précise d'intervention (ou association des différents genre possibles) à adopter dépendra en partie de l'étendue du domaine auquel le crédit doit être orienté. Le crédit peut porter sur une étendue limitée de sous secteurs au lieu du secteur agro-industriel en général. En plus, l'intervention dépendra de jusqu'où l'objectif doit réserver un effort substantiel en vue de rendre optimal la préparation des projets (une procédure relativement lente pouvant donner pour résultat un niveau de mise en application relativement bas) ou alors, maximiser les opérations d'octroi de fonds au risque d'arriver à un niveau élevé d'échec.

Dans sa conclusion, l'étude propose que l'intervention clé devant être soutenu par les projets à venir doit être celle des facilités du fonds de garanti orienté exclusivement dans les projets agro-industriels. Il est également recommandé que cette facilité (fonds de garanti) soit gérée conjointement avec ce que l'on peut appeler l'institution bancaire la plus convenable pour ce genre d'activité, c'est-à-dire la banque rwandaise de développement (BRD). Cette banque a une forte vocation d'octroi de crédit au secteur rural tout en montrant un fort engagement dans les opérations commerciales d'octroi de crédits à l'exemple d'autres banques commerciales. Un autre point important à ajouter à ce voler sera celui du soutien des services d'assistance technique et de formation à fournir, dans le but de renforcer les capacités de cette banque (BRD) dans la gestion des crédits pendant et après l'existence du projet.

SECTION I. BACKGROUND

A. Introduction

This report is intended to build on the findings of the consultant's previous analysis of the state of the financial sector in Rwanda and its capacity to service the agro-industrial sector (*Rwanda Financial Sector Profile: Impact on Agribusiness Investment*) carried out in November 1999. Its purpose is to identify the most appropriate form of intervention in support of lending to agriculture – in the broadest sense of the term – with a view to providing the basis for designing a financial / credit component of the AAD project. Although the consultant's terms of reference indicate a bias in favor of a loan guarantee fund, the exercise has examined a number of other possible options, and is also informed by consideration of relevant projects recently initiated, or about to be launched, offering loans to small and medium enterprises in the rural and other sectors. It also seeks, in line with the terms of reference, to offer some creative suggestions as to complementary initiatives that could help to enhance the quality of projects prepared for investment and thus lower the risks of failure and financial default.

B. Existing / recent donor initiatives in support of rural credit

For reasons elaborated in the consultant's previous report bank lending to the rural sector in Rwanda is extremely limited, bearing in mind the major importance of agriculture in relation to the size of the economy as a whole. Thus aside from seasonal credits to cover procurement of coffee for export (which is understood to be effectively guaranteed under trade insurance arrangements) the amount of loans made to rural enterprises has typically been less than 5 per cent of total lending. The severity of the constraints to lending to this sector is underlined by the fact that even the Banques Populaires, with their strong presence in rural areas, and micro-finance institutions - which have a strong vocation to lend to very small businesses without security - regard the sector as extremely risky and difficult to lend to successfully, particularly bearing in mind the limited capacity of these lending institutions for loan management relative to the large demand for small loans in these areas.

Hence it is clear that the only means of making significant credit available to rural (i.e. agro-industrial) enterprises under current conditions in Rwanda is through some form of *de facto* loan guarantee fund or targeted line of credit. While past experience of such schemes indicates that the risk of failure is high it seems possible to draw some lessons from very recent related activities and studies that could constitute the basis for creating an appropriate lending facility with a reasonably high chance of success. These include:-

1. Rwanda Demobilization and Reintegration Commission (RDRC): Loan Guarantee Fund

This fund has been set up in the context of the broader Rwanda Demobilization and Reintegration Program, which came into operation in June 1998 with the aim of demobilizing and re-integrating 25,000 soldiers of the Rwanda Patriotic Army (RPA) and re-integrating 30,000 ex-soldiers of the Rwanda Armed Forces (FAR). Under the Program – which has received a total initial endowment of US\$ 7.8 million – each demobilized soldier is supposed to receive a “Transitional Safety Net Allowance” equivalent to \$1,000, as well as access to

vocational training, agricultural plots, housing and (where needed) medical rehabilitation. The Loan Guarantee Fund (initially amounting to \$0.4 mn) is intended to offer beneficiaries medium-term credits of up to Rwf 1 mn (approximately \$3,000) each to be used in conjunction with their \$1,000 allowance – and, if desired, combined with the funds made available to other beneficiaries. The Fund operates through a deposit at the Banque Commerciale de Rwanda (BCR), through which loans are processed – after applications have been filtered by staff of the RDRP, who are also responsible for loan supervision and debt recovery. The Fund only guarantees 75 per cent of each loan, with BCR taking the risk on the remainder.

At the time of writing the fund has been in operation for about six months. According to information supplied by BCR 10 loans have been approved – including a number for small-scale agro-industrial projects such as bakeries and poultry production – and it is reported that to date there have been no defaults on debt service. If true, it has been suggested this may be partly attributable to the strong residual ties of military discipline between the demobilized beneficiaries and officials of the RDRP. In any event it is clearly too early to judge whether this project represents a replicable model for the delivery of SME credit, bearing in mind both the possible importance of military ties and the probable high level of administrative costs (borne entirely by the RDRP). Nevertheless it merits further consideration as potentially offering lessons for agro-related credit facilities such as that which may be created under the proposed AAD project.

2. IFAD / Ministry of Commerce and Industry: Project for Promotion of Rural SMEs (PPPMER)

This project, to be implemented in 22 selected communes of the prefectures of Byumba, Ruhengiri and Umutara, is intended to encourage the growth of small and medium enterprises in the rural sector, other than those engaged in primary agricultural production (i.e. those sectors within the domain of the Ministry of Commerce and Industry). A key component of the project, whose details are currently being finalized, is going to be a lending facility known as a credit fund (Fonds de Crédit) which will be financed by IFAD and operated in conjunction with the Banques Populaires (UBPR). This fund, which is being viewed as a pilot project, will amount to US\$ 0.4 mn.

An important feature of this fund – based on provisional information received concerning the accord to be signed between IFAD and UBPR – will be that PPPMER field staff will act as back-up to UBPR staff in respect of loan appraisal (including business plan / dossier preparation) and management with a view to minimizing risk and maximizing repayment rates. At the insistence of UBPR there is no provision for any element of loan guarantee in the fund, largely on the grounds that its experience of previous loan guarantee funds suggests they are too susceptible to political and other pressures to advance loans in defiance of market signals and prudential standards. It is striking, however, that the Bank is apparently not prepared to assume any part of the risk on loans advanced from the fund and that this appears to be accepted by IFAD.¹ It is claimed by the Director General of the UBPR that the need for the Bank to maintain strong pressure on its members to service other loans – and thus preserve a culture of repayment –

¹ Although the position in respect of this point is not absolutely clear and may not become so until the text of the accord is made public after it is signed (expected to be in April 2000)

constitutes a strong enough incentive to the Bank to apply proper prudential standards to loans advanced from the fund.

There is nevertheless an obvious risk that this project will result in a high proportion of bad debts. It may be, however, that the application of intensive loan supervision (with the support of the donor) will actually facilitate a high level of repayment, as in the case of microcredit programs offering unsecured loans of the “Grameen Bank” type. For this reason it will be useful to watch the results of this pilot project – as in the case of the RDRP Loan Guarantee Fund – so as to determine how far it could provide lessons for similar interventions by other donors in conjunction with the UBPR.

3. Proposed Agricultural Guarantee Fund

At present the Ministry of Finance and Economic Planning is giving serious consideration to the creation of an Agricultural Guarantee Fund (FGA). This would replace the existing Fonds Spécial de Garantie (FSG), which was set up in 1978 to support rural sector projects in general but is now insolvent and in process of being wound up. A consultant (under UNDP funding) has recently completed the first phase of a study intended to provide a basis for the design of the FGA. While the findings of this first phase report leave significant questions still to be answered about the precise characteristics and orientation of the new fund, it seems probable that it will have the following key features:

- It will operate as a discrete financial entity with management and decision-taking independent of government;
- Initial funding will be sourced from several foreign donors (not yet identified);
- Banks whose loans are guaranteed will be expected to bear a significant residual proportion of the risk (perhaps as much as 50 per cent of the value of any loan);
- Loans will only be guaranteed where maximum effort has been made to minimize exposure to risk (e.g. through optimal project preparation and design and insurance against adverse weather impacting on crop yields).

It is by no means clear how soon the FGA will be set up, especially in view of likely differences of view between the various interested parties as to the principles to be applied (e.g. whether loan interest rates should be subsidized to any extent) and uncertainty over which donors will fund it.

SECTION II. OPTIONS FOR SUPPORT ACTIONS TO BE INCLUDED UNDER AAD

Various alternative interventions might be considered under AAD in support of improving access to credit for agro-related enterprises. Based on reported recent experience in Rwanda with different mechanisms, and in the light of the known constraints affecting the economy and the banking sector, the relative merits of the main available options are considered below. This analysis starts from the recognition that the principle constraint to lending to the rural sector in Rwanda is the combination of high risk and lack of borrowers' collateral / security - rather than any shortage of loanable funds within the banking system. Consequently the purpose of any intervention or combination of interventions must be to help reduce the level of risk and hence the need for security.

A. Targeted Lines of Credit

A line of credit targeted exclusively at agro-industrial projects would in principle seem to offer a useful mechanism for increasing the volume of loan finance invested in this neglected sector. Moreover, it should permit those administering the line of credit (in conjunction with local banks) to ensure that loans were approved only for bankable loan projects that have been properly and thoroughly prepared, and that it would therefore be less susceptible to political or other non-commercial pressures than is typically the case with guarantee funds (see below). It should also be less complicated to administer than a guarantee fund.

However, a line of credit by itself cannot overcome the weaknesses currently affecting rural sector credit in Rwanda. For these relate above all to the lack of adequate security relative to the degree of risk rather than to the level of funds available, which is already sufficient (as reflected in the ample level of bank deposits). This means that the interventions required are ones that help to bridge the gap between the low levels of collateral or equity capital available for investment in most agro-industrial projects.

B. Guarantee Funds

On the face of it a guarantee fund appears a particularly appropriate way of meeting the current constraints to rural sector lending in Rwanda, since it permits a clearly defined limitation of risk while not requiring any up-front commitment of funds for on-lending (as with a line of credit) – which in any case should not be necessary in the present case given the high level of liquidity. This would make it possible, depending on the type of mechanism employed, for the guarantee fund to be placed on deposit (bearing interest) until the need to meet its commitments was activated by default on the part of a borrower.

The problems associated with a loan guarantee fund are primarily that

- In a situation such as that currently prevailing in Rwanda there is a widespread tendency to assume that the linking of a guarantee to a credit means that normal prudential standards can be overlooked in processing loan applications and that projects can thus be funded even when there is no serious prospect of debts being serviced at all. For this reason political and other pressures are frequently applied (often successfully) to banks through which applications are processed to approve wholly unworthy projects. This has led to serious disenchantment with this form of support not only on the part of donors but also even among some banks.
- Very often the process of activating the guarantee mechanism in the event of default creates uncertainty or expense for participating banks, given that it is necessary to comply with conditions that may require the pursuit of defaulters through the courts and consequent delays in payment.

Despite these disadvantages it is clear that some form of guarantee mechanism is indispensable in order to facilitate loans to the agro-industrial sector - other than those that may be classed as micro-credits such as are typically offered by NGOs.

C. Enhancement of commercial banks' loan management capability

A major cause of banks' reluctance to make loans for agro-related projects is a deficiency of resources necessary to appraise loan applications and administer loans once made. Given the inherent riskiness of this type of lending, it is essential for a bank to be able both to analyze applications in as much depth as necessary and to supervise the performance of recipients - in order to help minimize both the risk of making bad loans and also the level of default on repayments. Although some banks claim this problem relates partly to their lack of significant branch networks outside Kigali, this seems unlikely to be a significant constraint. For in such a small country it would hardly affect their ability to process and manage the relatively small number of medium-large loans (minimum Rwf 10 mn each) they are likely to make each year to the rural sector. It would be a different matter if they were expected to make a large number of smaller loans. However, this segment of the market is more suited to be covered by the UBPR, which has a network of over 130 branches covering nearly every commune in the country, and the micro-finance institutions operated by NGOs.

A much more significant constraint is the lack of adequate personnel with the expertise required to process loans to agro-industrial enterprises – other than short-term loans to cover trade in established markets such as coffee exports. At present banks undoubtedly perceive, and with good reason, that acquiring, training and deploying the necessary human resources for this purpose would be an unwarranted expense in relation to the relatively small amount of bankable projects they might expect to identify. Hence there is undoubtedly a role for donors in funding such skilled manpower – in the form of technical assistance - in order to strengthen the commercial banks' capability in this area, and at the same time to provide training to the banks' own staff. This would constitute an appropriate subsidy to banking costs, without entailing any distortion to market signals, and could also (through training) help to bring about a permanent enhancement of the banks, capacity to service the rural economy. As such it would in principle

be following the intended relationship between IFAD and the UBPR as proposed in the PPPMER project about to be implemented (see above).

D. Improving sources of information

In addition to helping financial institutions by subsidizing their costs in respect of rural sector loan management donors can assist this process – and at the same time improve the quality of projects being submitted for loan approval – by helping to enhance both the quantity and quality of information available to both lenders and potential borrowers. It is evident that there is currently a serious dearth of reliable and up-to-date statistical, market and cost data relating to agro-industrial sector in general, while such information as exists is often not readily accessible.

It is intended that the AAD project should help to meet an important part of this deficiency by improving access to up-to-date information on market prices for most agricultural products. However, there will remain substantial gaps in information needed to help lenders and investors make reasonably quick assessments of the viability of projects, particularly in respect of farm-level costs – and thus of likely producer response to market stimuli. Since the scope of the AAD project will not permit it to contribute further to filling this gap – which will require substantial resources – it is important that other donors be encouraged to undertake analyses of key sectors and sub-sectors and thereby help build up data bases which should be a) freely accessible to all interested parties and b) capable of being regularly updated by local experts / consultants.

Another form of information which could be potentially valuable both to existing and new enterprises operating in the rural sector would be some form of inventory of support schemes for farming and related enterprises in different parts of the country. For to the extent these were receiving support in the form of microcredit or other services the beneficiaries of such schemes (e.g. a farmers' association with potato storage facilities) might be particularly well placed to guarantee supply of a particular crop being sought by downstream traders or processors. In this way also the complementarities between different agricultural support projects could be enhanced – so that each would potentially “add more value” than if working largely in isolation.

E. Other aids to risk reduction

Other ways of reducing risk, notably through various forms of insurance scheme or market hedging, are being considered in the preparation of the FGA, and may well be a useful adjunct to a financial sector intervention supported under AAD. However, based on the limited information obtainable within the scope of the present exercise, it is by no means certain that it will be possible to devise insurance schemes which are both actuarially sound and affordable to prospective users, particularly in respect of crop insurance.

The precise form of intervention – or combination of interventions – to be adopted under the AAD will depend to a large extent on how far the project is intended to:

- Enhance access to credit for agribusiness enterprises in general;
- Target credit at specific sub-sectors adopted for priority support by other components of the AAD project;

- Ensure that credits are only advanced to projects for which a soundly based prospect of viability can be demonstrated and risks have been minimized;
- Make finance available to prospective borrowers as a matter of urgency on a relatively “high risk” basis.

If the primary emphasis is to be on a) rather than b) the most obvious option would seem to be for USAID to participate in the FGA along with other donors - assuming that the FGA is indeed implemented - rather than to create a parallel guarantee fund of its own. This is because it might both impose undue strain on the administrative resources of the banking system – which is at present seriously short of capacity for appraisal and management of rural-sector loans – and at the same time create needless confusion among potential borrowers if more than one generally accessible guarantee fund for the sector were to be created. Such constraints might also be a consideration even if b) were viewed as the priority objective, and in any case care would need to be taken in setting up a targeted guarantee fund to try and ensure that it was perceived as complementary to rather than competitive with the FGA. In fact there are some indications that the government might oppose USAID creating a separate and potentially competing guarantee fund, although this is perhaps less likely to the extent that i) the USAID fund was limited in scope and ii) it remains far from clear at present when and on what basis the FGA will be set up.

Given the general lack of comprehensive and up-to-date information relating to the parameters which will determine the viability of loan projects in the rural sector, it might be expected that giving priority to criterion c) would mean that any projects approved should in principle bear relatively low risks and therefore be capable of attracting more commercial funds. For such projects it might be thought that access to loan guarantees would be neither necessary nor appropriate, although there would still be a need to provide substantial TA / loan management support to the commercial banks. In reality, however, it is clear that under present conditions in Rwanda (including the recent history and present financial fragility of the banks) it will be necessary to provide some support in the form of an external guarantee fund - even after every possible effort has been made to minimize risk. Thus the best that can be hoped is that, by supporting the risk minimization process the proportion of unsecured risk that the bank would be prepared to assume could be increased, and that to be covered by the guarantee fund correspondingly reduced – perhaps to as little as 25 per cent. By extension if d) were to be viewed as the priority consideration, a guarantee fund would not only be essential but would need to offer 100 per cent cover in order to secure participation by the commercial banks.

SECTION III. RECOMMENDATION FOR AAD FINANCIAL SECTOR INTERVENTION

In designing a rural lending support facility, a fine line has to be drawn between setting conditions which are too stringent to permit more than a handful of projects to be financed and, on the other hand, offering guarantees or incentives which are so lax as to encourage loan demands for much more risky projects, if not outright fraud. As noted in the previous section, it is clearly impossible under present circumstances in Rwanda to promote lending by the commercial banks to agro-related investment projects without the backing of some form of guarantee fund. This point is underlined by the recent weak management and poor performance of many of these banks, which has resulted in high levels of non-performing loans and a need to restructure balance sheets and in some cases inject new funds. This in turn has led to an even greater reluctance to devote resources to expanding into the inherently risky rural sector.

Against this background it is important for the AAD project to apply extreme care in selecting partner financial institutions, which could act as a vehicle for providing loan finance to agro-industrial projects. As far as possible any such partner bank should be demonstrated to have some long-term commitment to developing a viable presence in this sector without sacrificing proper prudential standards of bank management. Based on available knowledge of the commercial banking industry it is clear such an institution will be very hard to identify with any confidence. Thus the only commercial bank with sound management and a reasonably strong balance sheet, the Banque de Kigali, is also the one with the greatest apparent aversion to acquiring potentially risky assets in the rural sector.

It is the consultant's conclusion that the only institution with an apparent willingness to develop an agro-related portfolio is the Banque Rwandaise de Développement (BRD). This is revealed by the fact that it has not only made quite substantial loans to two agricultural projects in recent years – flowers and dairy cattle – but has also made an equity investment in the flower project (Highland Flowers) of Rwf 30 mn (US\$ 75,000). This orientation, as well as its ability to make equity investments, is clearly a function of the fact that it is not a commercial bank but a development bank (majority owned by the Rwandese state) and as such has a vocation to invest in projects, which might be less likely to attract funding from strictly commercial banks. Nevertheless it has also come under pressure to apply stricter criteria in recent years following an increase in the number of provisions against bad or doubtful debt – even since it was recapitalised following the disastrous impact on it of the war of 1994 (see the consultant's previous report, *Rwanda Financial Sector Profile: Impact on Agribusiness Investment*).

Discussions with senior representatives of the BRD indicate that it would be unwilling to entertain a line of credit targeted at agro-industrial projects without some form of linked guarantee facility. Indeed their existing and prospective new (non-targeted) credit lines - including one of Euros 9 mn recently signed with the European Investment Bank - indicate that the Bank already has quite sufficient funds to lend at present. It thus appears that the most appropriate mechanism of support would be a guarantee fund targeted exclusively at agro-industrial projects. Based on these preliminary discussions suggested features would include

- Loans should be for a minimum of Rwf 10 mn each;
- The proportion of each loan subject to guarantee should vary according to the perceived degree of risk in each case (possibly between 40 and 70 per cent);
- In principle the activation of the guarantee should be unconditional, subject to an understanding that BRD would deploy its established debt recovery capacity to reduce losses to the Bank and the fund in the proportions fixed for the guarantee in each case;
- AAD technical assistance in support of BRD's capability in respect of processing loan applications and post-implementation supervision;
- AAD should also provide specific training to one or more existing or specially recruited BRD officials in loan appraisal and supervision in relation to rural sector projects.

The above list of points is the result of a single initial discussion with BRD representatives and largely represents the latter's expressed preferences. It is, of course, understood that there will need to be extensive negotiations on the precise terms of any agreement to be signed between USAID and BRD. In order to avoid as far as possible any perception that the guarantee fund will provide an opportunity for investors to obtain funding for essentially non-bankable projects it will of course need to be laid down that USAID will have a de facto right of veto over any decisions to approve particular projects, if not of activation of the guarantee mechanism.

It is important to stress that any guarantee fund – and the institutional structures designed to approve related lending and the operation of the guarantee mechanism – should, to the extent possible, be wholly separate in management terms from the proposed AAD Business Center. This will be necessary in order to avoid creating the perception that investors seeking support would either be assured of getting a loan from BRD if they sought advice from the Business Center first, or would fail to secure such a loan if they did not approach the Center at some point.

ANNEX A: PERSONS CONTACTED

Eric B. Mugabonkande, Operations Manager, Banque Rwandaise de Développement

A.Gafoor Yakub, IMF Resident Budget Advisor, Ministry of Finance

Ms Susanne J. Brezina, Junior Programme Officer, UNDP, Kigali

François Kanimba, Senior Economist, World Bank

Edson Mpyisi, In-country Coordinator, Food Security Research Project / MSU, MINAGRI

John Ruzibuka, IFAD Representative, , Ministry of Finance

Michel Decuypère, CEO, Banque de Kigali

Justin Uyisenga, Coordinator, Project for Fonds de Crédit Agricole, , Ministry of Finance

Délégué de l' UBPR, Butare Prefecture

Directrice, Banque Populaire of Nyaruhengiri, Butare Prefecture

Ms Josephine Umurerwa, Directrice, Projet Relance Butare Sud-Est

Theo Baert, Délégué de la Coopération Belgo-Rwandaise, Projet Relance Butare Sud-Est